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A Journal of Political Economy

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The Case against Psychiatric Coercion

THOMAS SZASZ

> "To commit violent and unjust acts, it is not enough for a government to have the will or even the power; the habits, ideas, and passions of the time must lend themselves to their committal."
>
> —ALEXIS DE TOCQUEVILLE (1981, 297)

Political history is largely the story of the holders of power committing violent and unjust acts against their people. Examples abound: Oriental despotism, the Inquisition, the Soviet Gulag, the Nazi death camps, and the American war on drugs come quickly to mind. Involuntary psychiatric interventions belong on this list.[1]

When Tocqueville referred to "unjust acts," he was speaking as a detached observer, viewing state-sanctioned violence as an outsider. From the insider's point of view, state-sanctioned violence is, by definition, just. The Constitution of the United States, for example, recognized involuntary servitude as a just and humane economic policy. Throughout the civilized world people now recognize involuntary psychiatry as a just and humane therapeutic policy. Making use of the fashionable rhetoric of rights, a prominent psychiatrist describes adding the "right to treatment" to the

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1. Unless the context calls for a restricted use of the words *psychiatry* and *psychiatrist,* I use these terms to refer to all mental health professions and professionals.

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existing criteria for assessing civil commitment as a "policy more realistically and humanely balancing the right to be sick with the right to be rescued" (Treffert 1996).

The fact that the psychiatrist is authorized to use force to impose the role of mental patient on *legally competent* persons against their will is prima facie evidence that the psychiatrist possesses state-sanctioned power. In 1913, Karl Jaspers ([1913] 1963)[2] acknowledged the unique importance of this element of psychiatric practice. He wrote:

> Admission to hospital often takes place against the will of the patient and therefore the psychiatrist finds himself in a different relation to his patient than other doctors. He tries to make this difference as negligible as possible by deliberately emphasizing his purely medical approach to the patient, but the latter in many cases is quite convinced that he is well and resists these medical efforts. (839–40)

The systematic exercise of force requires legitimation. Formerly, Church and State, representing and implementing God's design for right living, performed this function. Today, Medicine and State perform it. W. H. Auden ([1962] 1968) put it thus:

> What is peculiar and novel to our age is that the principal goal of politics in every advanced society is not, strictly speaking, a political one, that is today, it is not concerned with human beings as persons and citizens, but with human bodies.... In all technologically advanced countries today, whatever political label they give themselves, their policies have, essentially, the same goal: to guarantee to every member of society, as a psychophysical organism, the right to physical and mental health. (87)

So long as the idea of mental illness imparts legitimacy to psychiatric coercion, the myriad uses of psychiatric compulsions and excuses cannot be reformed, much less abolished. Hence, for those opposed to psychiatric coercion, the principal adversary is its legitimacy.

The Varieties of Power

In social affairs, power is usually defined as the ability to compel obedience. Its sources are coercion from above and dependency from below. By coercion I mean the legal or physical ability to deprive another person of life, liberty, or property, or to threaten such "punishment." By dependency I

2. Jaspers later abandoned psychiatry for philosophy.

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mean the desire or need for others as protectors or providers.[3] "Nature," observed Samuel Johnson ([1709–84] 1981), "has given women so much power that the law has very wisely given them little" (172). The sexual control women wield (over men who desire them) is here cleverly contrasted with their legal subservience (a condition imposed on them by men).

Because the definition of power as the ability to compel obedience fails to distinguish between coercive and noncoercive means of securing obedience, it is imprecise and potentially misleading. For example, when Voltaire exclaimed, *Écrazez l'infâme!* he was using the word *l'infâme* to refer to the power of the church to incarcerate, torture, and kill people, not to the influence of the priest to misinform or mislead the gullible. The distinction I draw here is not novel, yet needs to be stated and restated. As the American philosopher Alfred North Whitehead ([1933] 1961) put it, "[T]he intercourse between individuals and between social groups takes one of these two forms, force and persuasion. Commerce is the great example of intercourse by way of persuasion. War, slavery, and governmental compulsion exemplify the reign of force" (83).

I use the word *force* to denote the power to harm, or threaten to harm, another,[4] and the word *influence* to refer to obedience secured by money or other rewards or temptations. The potency of force, symbolized by the gun, rests on the ability to injure or kill the Other, whereas the potency of influence rests on the ability to gratify the Other's desires. By desire I mean the experience of an unsatisfied urge, for example, for food, drugs, or sex. The experience is painful; its satisfaction is pleasurable. Individuals who depend on another person for the satisfaction of their needs (or whose needs or desires can be aroused by another) experience the Other as having power over them. Such (though not such alone) is the power of parents over their children, of doctors over their patients, of Circe over Ulysses. In proportion as we master or surmount our desires, we liberate ourselves from this source of domination.

Dependence, Domination, and Psychiatry

The paradigmatic exercise of psychiatric coercion is the imposition of an ostensibly diagnostic or therapeutic intervention on subjects against their will, legitimized by the state as protection of subjects from madness and protection of the public from the mad. Hence, the paramount source of psychiatric domination is force. Its other source is dependency, that is, the

3. The spheres of legitimacy of power and dependency are defined by law, custom, and tradition.

4. The legally unauthorized use of force is a felony.

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need of the powerless for comfort and care by the powerful. Involuntary psychiatric interventions rest on coercion, voluntary psychiatric interventions on dependency. It is as absurd to confuse or equate these two types of psychiatric relations as it is to confuse or equate rape and mutually desired sexual relations. I oppose involuntary psychiatric interventions not because I believe that they are necessarily "bad" for patients but because I oppose using the coercive apparatus of the state to impose psychiatric relations on persons against their will. By the same token, I support voluntary psychiatric interventions, not because I believe that they are necessarily "good" for patients but because I oppose using the power of the state to interfere with contractual relations between consenting adults (Szasz 1982).[5]

When people suffer from disease, oppression, or want, they naturally seek the assistance of persons who have the knowledge, skill, or power to help them or on whom they project such attributes. In ancient times, priests, whom people believed to possess the ability to intercede with powerful gods, were the premier holders of power. For a long time, curing souls, healing bodies, and relieving social-economic difficulties were all regarded as priestly activities.[6] Only in the last few centuries have these roles become differentiated, as Religion, Medicine, and Politics, each institution being allotted its "proper" sphere of influence, struggled to enlarge their scope and power over the others.

The separation of church and state represents a sharp break in Western political history. Although still paying lip service to an Almighty, the U.S. Constitution is, in effect, a declaration of the principle that only the state (government) can exercise power legitimately and that the sole source of its legitimacy is the "happiness of the people" ensured by securing "the consent of the governed." Gradually, all Western states have adopted this outlook. The Argentinean poet and novelist Adolfo Bioy Casares (1986) satirized the resulting "happiness":

> Well then, maybe it would be worth mentioning the three periods of history. When man believed that happiness was dependent upon God, he killed for religious reasons. When man believed that happiness was dependent upon the form of government, he killed for political reasons. After dreams that were too long, true nightmares...we arrived at the present period of history. Man woke up,

5. Some psychiatric critics, opposing the use of psychiatric drugs, electric shock treatment, or psychotherapy, advocate the legal prohibition of these methods or relationships on the ground that people need protection from the "exploitation" intrinsic to the practice of psychiatry and psychotherapy. I regard state-sanctioned "protection" from psychiatric treatment as just as patronizing as state-sanctioned protection from psychiatric illness. Both are state-imposed denials of the basic human right to engage in, or refrain from, making contracts.

6. Jesus and Mother Teresa still project this sort of image.

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> discovered that which he always knew, that happiness is dependent upon health, and began to kill for therapeutic reasons. (7)

Among these therapeutic reasons, the treatment of mental illness occupies a unique place.

Human beings are intensely susceptible to two types of unpleasant experiences: anxiety-and-guilt and pain-and-suffering. Each is a virtually inexhaustible source of dependency, on soul doctors, body doctors, or both. Religion, by providing myth and ritual, relieves people of anxiety-and-guilt and promises a tranquil eternal life in the hereafter. Medicine, by providing diagnosis and treatment, relieves people of pain-and-suffering and promises a healthy and endlessly extended life on earth. How does psychiatry fit into this picture?

The practice of the branch of medicine we call "psychiatry" began with the confinement of troublesome persons in madhouses. As a result, two symmetrical populations came into being: the kept, called "madmen" or "mad women," and the keepers, called "mad-doctors." During the eighteenth century, the idea of insanity and the institution of the insane asylum became established as important—indeed, socially indispensable—medico-legal concepts and methods of social control. Soon, law, medicine, and popular opinion came to see the insane asylum as the proper place for housing persons authoritatively declared (diagnosed as) insane. Initially, few people were troubled because the situation of the insane in the asylum resembled the situation of the prisoner in jail. The philosophy of the Enlightenment undermined this complacency, projecting the idea of human rights onto the center stage of Western history. Depriving mental patients of liberty had to be reconciled with society's ostensible devotion to human rights. This task was accomplished partly by conflating and confusing the concept of illness (a bodily condition) with the concept of incompetence (non compos mentis, a legal concept and, subsequently, a "mental" condition) and partly by subsuming civil commitment under the rubric of the state's police power, that is, its duty to protect the public from "dangerous" persons (lawbreakers). This dual justification of psychiatric coercion has remained essentially constant for almost 300 years (Szasz 1994).

Legitimizing Psychiatric Coercion

A crucial moment in the legitimation of modern psychiatric coercion occurred in central Europe during the early decades of this century.[7]

7. The introduction of antipsychotic drugs in the 1950s further legitimated psychiatric coercion. Today, it is reinforced by brain-scanning methods allegedly demonstrating that mental diseases are brain diseases that, nevertheless, ought to be treated by psychiatrists rather than by neurologists.

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Although psychiatry and psychoanalysis arose as distinct and separate enterprises, they soon merged into a union that proved to be fateful for the future of the "mental health services" industry. Collaboration between Eugen Bleuler and Sigmund Freud and their followers created this union.

Bleuler was born in 1857 in Switzerland. After a successful career in psychiatry, in 1889 he became the head of the famed Burghölzli, the public mental hospital in Zürich. Unlike most psychiatrists, Bleuler wanted to know his patients as persons. Finding the psychiatric dogma of his day useless for that purpose, he looked to Freud's writings for help. By 1902, he had read *The Interpretation of Dreams*[8] and made three complimentary references to it (Ellenberger 1970; Clark 1980). Two years later he initiated contact with Freud, writing him "that he and all his staff had for a couple of years been busily occupying themselves with psychoanalysis and finding various applications for it" (Jones 1953–57, 2:30).

In his biography of Freud, Ernest Jones commented: "Because of the increasingly prominent position Bleuler held among psychiatrists, Freud was eager to retain his support" (1953–57, 2:72). Then, displaying his incomprehension of psychiatric history, he added: "Unfortunately, this state of affairs [friendship between Freud and Bleuler] did not endure.... His [Bleuler's] interests then moved elsewhere, from psychological to clinical psychiatry" (73). This statement is wrong. Bleuler had always been a clinical psychiatrist, never relinquished his interest in the psychological understanding of patients, and never renounced his appreciation of psychoanalysis. In 1907, replying to his critics, Bleuler wrote:

> I consider that up to the present the various schools of psychology have contributed extremely little towards explaining the nature of psychogenic symptoms and diseases, but that...psychoanalysis offers something towards a psychology which still awaits creation and which physicians are in need of in order to understand their patients and to cure them rationally. (Bleuler 1914, 26)

In 1925, in a 17 February letter to Freud, Bleuler expressed this point even more strongly: "Anyone who would try to understand neurology or psychiatry without possessing a knowledge of psychoanalysis would seem to me like a dinosaur—I say 'would seem' not 'seems,' for there no longer are such people, even among those who enjoy depreciating psychoanalysis!" (Bleuler 1925, 117).

In his epochal work, *Dementia Praecox or the Group of Schizophrenias*, Bleuler courageously incorporated a psychoanalytic perspective in his inter-

8. *The Interpretation of Dreams* was published in 1900, the watershed date in the history of psychoanalysis.

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pretation of the behavior of schizophrenic patients. The following example is illustrative. A woman patient declares that "she is Switzerland." Bleuler ([1911] 1950) wrote: "She says, 'I am Switzerland.' She may also say, 'I am freedom,' since for her Switzerland means nothing else than freedom" (429). The patient's "symptom" reveals that she is protesting against her confinement; Bleuler's use of this example reveals that he recognized the legitimacy of her protest.

This is not the place to dwell on Bleuler's monumental work. Suffice it to note that although he defined schizophrenia as a "disease [that] is characterized by a specific type of alteration of thinking, feeling, and relation to the external world" (150), his foregoing remarks show that he recognized that schizophrenic "thinking" was a type of poetry and protest as well.[9] However, by pathologizing the schizophrenic's behavior, Bleuler undermined that common-sense judgment and the psychiatric response to it: persons incarcerated in the mental hospital were made to appear as medical patients suffering from a disease; the psychiatrist incarcerating them was made to appear as a medical doctor treating a disease; and the power relations between them were buried more deeply than ever.

But Bleuler, who was honestly seeking the truth, did not let the matter rest there. In 1919, when his reputation as a psychiatrist was second to none in the world, he wrote a book, now virtually forgotten, that is largely a denunciation of psychiatric power. He wrote: "Many a case of 'latent' schizophrenia is diagnosed as total in all certainty. Never does it occur to the doctor to consider all the consequences: confinement of the patient to a mental institution, deprivation of civil rights, abandonment of his profession, etc." ([1919] 1970, 115). Who spoke of the civil rights of mental patients in those days? Not Freud. Not psychiatrists. But Bleuler did. In the final paragraph of his book on schizophrenia, he commented on "the most serious of all schizophrenic symptoms...the suicidal drive":

> I am even taking this opportunity to state clearly that our present-day social system demands great and entirely inappropriate cruelty from the psychiatrist in this respect. People are being forced to continue to live a life that has become unbearable for them for valid reasons; this alone is bad enough. However, it is even worse, when life is made increasingly intolerable for these patients by using every means to subject them to constant humiliating surveillance. ([1911] 1950, 488)

9. The points I wish to emphasize here are, first, that thinking, feeling, and relating to the external world are, prima facie, not matters of medical concern; and second, that whatever an "alteration of thinking and feeling" might be, it is patently an inadequate justification for depriving a person of liberty.

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Bleuler must have felt more than a little guilty to have advanced so disingenuous a disclaimer. No one forces a person to become a jailer confining criminals or to become a psychiatrist confining mental patients.

The Moral Suicide of Psychoanalysis

Notwithstanding the sloppy scholarship of many psychiatric historians, it is important to remember that Sigmund Freud was not a psychiatrist. In late nineteenth-century Europe, the term "psychiatrist" meant a physician working in the public mental hospital system. Because Jews were barred from employment in state bureaucracies, they could not be psychiatrists and hence could not force people to be their unwilling patients.

Not only was Freud not a psychiatrist, most psychiatrists viewed his writings as inimical to psychiatry. For example, the prominent German psychiatrist Franz von Luschan blamed "Bleuler for his astonishing behavior in helping to promulgate the epidemic [i.e., psychoanalysis]" (Jones 1953–57, 2:119). Psychiatrists objected to Freud's writings not because he opposed involuntary psychiatric interventions; in fact, he enthusiastically supported psychiatric excuses and coercions (Szasz [1976] 1990, 136–37). Instead, they disapproved of Freud's work because they wanted to see themselves as physicians with a professional identity firmly anchored in neurology and neuropathology; and because they wanted to see their patients as suffering from bona fide diseases, that is, bodily abnormalities with physical causes independent of the sufferer's personal history. By introducing a new set of disease-causative agents—namely, the patient's life history (especially "traumas" suffered during childhood)—Freud spoiled this purely physicalistic conception of etiology and pathology.[10] At the same time, he reinforced the established social prestige of psychiatry with the seemingly scientific prestige of psychoanalysis. The psychiatric profession now became a mighty river, formed by the confluence of two large tributaries: the state hospital system, confining and caring for some of the injured and injurious members of society in institutions; and the theory and practice of psychoanalysis, offering a system of interpreting behavior and counseling to noninstitutionalized, fee-paying individuals. As a result of this expansion, psychiatric power became more impervious to criticism than ever.

Although I offer no new information concerning the collaboration between Bleuler and Freud, the inference I draw concerning its impact on the history of psychiatry is, I believe, novel. Historians of psychiatry and

10. Depending on one's point of view, one might also say that Freud improved these concepts. In any case, by adding psychogenesis to somatogenesis, and psychogenic diseases (for example, perversions) to somatogenic diseases (for example, pneumonia), Freud expanded the conceptual categories of etiology and pathology.

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psychoanalysis have overlooked how Freud's coveting the blessings of psychiatry combined with Bleuler's perceptive use of psychoanalytic insights reinforced the legitimacy of the psychiatric enterprise, which had previously labored under a cloud of scientific and civil-libertarian suspicion. Consider the evidence.

In his 1914, "On the History of the Psychoanalytic Movement," Freud (1953–74) wrote: "A communication from Bleuler had informed me...that my works had been studied and made use of in the Burghölzli.... I have repeatedly acknowledged with gratitude the great services rendered by the Zürich school of Psychiatry in the spread of psychoanalysis" (14:26–27). What did Freud mean here by "psychoanalysis"? Clearly, he could not have meant that its subjects *must be voluntary clients*, an element that he had identified nine years earlier as intrinsic to the practice of psychoanalysis. In 1905, Freud had declared: "Nor is the method applicable to people who are not driven to seek treatment by their own sufferings, but who submit to it only because they are *forced* to by the authority of relatives" (1953–74, 7: 263–64, my emphasis). If so, psychoanalysis was even less applicable to people forced to submit to "it" by the authority of policemen, judges, and psychiatrists.

It is reasonable to infer that in reference to his alliance with the psychiatrists at the Burghölzli, Freud did not use the word *psychoanalysis* to identify a *voluntary* relationship between a healer and his subject but rather a body of ideas associated with his name. This interpretation is supported by his remark that "Jung successfully applied the analytic method of interpretation to the most alien and obscure phenomena of dementia praecox [schizophrenia], so that *their sources in the life-history and interests of the patient came clearly to light*. After this, it was impossible for psychiatrists to ignore psychoanalysis any longer" (1953–74, 14:28, my emphasis).

As we know, it was not at all impossible for psychiatrists to ignore psychoanalysis, if the term includes respect for the current life history and civil rights of the patient. Indeed, Freud himself led the legions that joyously proceeded to ignore the most obvious life historical event in the life of the schizophrenic patient: namely, that a psychiatrist is depriving him of liberty. I have called attention elsewhere to Freud's glaring neglect of Schreber's incarceration. In 1976, I wrote:

> In his most famous study of schizophrenia, the Schreber case, Freud devotes page after page to speculations about the character and causes of Schreber's "illness," but not a word to the problem posed by his imprisonment or his right to freedom. Schreber, who was "psychotic," questioned the legitimacy of his confinement, and Schreber, the madman, sought and secured his freedom. Freud,

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> who was a "psychoanalyst," never questioned the legitimacy of Schreber's confinement, and Freud, the psychopathologist, cared no more about Schreber's freedom than a pathologist cares about the freedom of one of his specimens preserved in alcohol. (Szasz 1988b, 39)

The writer and literary critic Gabriel Josipovici (1988) reminds us that "We do not decipher people, we encounter them" (307). The psychiatrist's power to coerce the patient negates the possibility of a humane encounter between them. Indeed, interpreted as a command, the rule that we should not decipher but encounter the Other violates the canons of psychiatry and the laws of the Therapeutic State. To remain a psychiatrist, the psychiatrist must view his client as a "patient" afflicted with a dangerous "mental disease," and himself as a physician whose task is not only to treat mental diseases but also to incarcerate innocent patients deemed to be "dangerous" and exculpate guilty patients deemed to be innocent by reason of insanity. No amount of semantic transfusion from the vocabulary of psychoanalysis can, or was intended to, alter these elementary facts of psychiatry, characteristic of twentieth-century life in free and totalitarian societies alike.

I want to offer some additional observations concerning Freud's contributions to the enhancement and legitimation of psychiatric power. In 1914, in his essay "On Narcissism," Freud wrote: "Patients of this kind [schizophrenics]...display two fundamental characteristics: megalomania and diversion of their interest from the external world—from people and things. In consequence of the latter change, they become inaccessible to the influence of psychoanalysis and cannot be cured by our efforts" (1953–74, 14:74). Characterizing the schizophrenic as a person who, by turning away from "things and people," deprives himself of the benefits of psychoanalytic treatment is like characterizing the atheist as a person who, by turning away from God, deprives himself of the benefits of religious salvation. Instead of acknowledging that the schizophrenic's avoidance of the ministrations of a psychoanalyst is a decision, similar to a person's decision to avoid the ministrations of a chiropractor or Christian Science healer, Freud defined it as itself a symptom of schizophrenia and implied that if the schizophrenic were willing to submit to the analyst, psychoanalysis could cure him.

Although psychiatrists as well as psychoanalysts now treat psychoanalysis as a branch of psychiatry, the truth is that before psychoanalysis was absorbed into psychiatry, the two enterprises were almost antithetical. Politically, the essence of the psychoanalytic relationship was the absence of the coercions traditionally present in relations between psychiatrists and mental patients. Practically, this meant that the analyst's failure to respect

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the patient's personal autonomy or the analyst's interference in the client's life was incompatible with the psychoanalytic relationship. The respective aims, values, and practices of psychiatry and psychoanalysis may be summarized as follows:

> — To effect a cure, psychiatrists coerce and control their "patients": they incarcerate the (involuntary) victims and impose various unwanted chemical and physical interventions on them.
>
> — To conduct a dialogue, psychoanalysts contract and cooperate with their "patients": they listen and talk to the (voluntary) interlocutors, who pay for the services they receive (Szasz 1988a).

Before psychoanalysis became institutionalized as a profession, the psychoanalytic relationship represented a genuinely new social development, namely, a noncoercive, secular help ("therapy") for problems in living (called "neuroses"). The term "psychoanalysis" then denoted a confidential dialogue between an expert and a client, the former rejecting the role of custodial psychiatrist, the latter assuming the role of responsible, voluntary patient. The psychiatric and psychoanalytic enterprises rested on totally different premises and entailed mutually incompatible practices:

> — Traditional psychiatrists were salaried physicians who worked in a mental institution; their source of income was the state; they functioned as agents of bureaucratic superiors and the patient's relatives. Typical mental hospital inmates were poor persons, cast in the patient role against their will, housed in a public mental hospital.
>
> — Traditional psychoanalysts were self-employed professionals who worked in private offices; their source of income was patients; they functioned as agents of the patients. Typical analytic patients were rich persons (usually wealthier than the analyst) who cast themselves in the patient role and lived in their own home or wherever they pleased.

As soon as Freud achieved the recognition he craved, he destroyed the core value of the psychoanalytic relationship. I refer to his assuming the authority of certifying competence in psychoanalysis and requiring that individuals seeking to become psychoanalysts undergo a so-called training analysis. If voluntariness is an essential element of the psychoanalytic relationship, then a compulsory training analysis is a contradiction in terms.[11]

11. Because children are, by definition, involuntary subjects, child analysis is also a contradiction in terms.

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The betrayal of confidentiality intrinsic to training analysis drove a stake through the heart of the role of the psychoanalyst. The result was the destruction of the moral integrity and healing potential of the human encounter called "psychoanalysis" (Szasz 1958, 1960).

"Power Is Not a Means"

For more than forty years I have argued that the institution of psychiatry rests on civil commitment and the insanity defense and that each is a paradigm of the perversion of medical power. If the persons called "patients" break no law, they have a right to liberty. And if they break the law, they ought to be adjudicated and punished in the criminal justice system. It is as simple as that. Nevertheless, so long as conventional wisdom decrees that mental patients must be protected from themselves, that society must be protected from mental patients, and that both tasks rightfully belong to psychiatrists wielding powers appropriate to the performance of these duties, psychiatric power will remain unreformable.

Of course, many people do threaten society: they assault, injure, rob, and kill others. Some are regarded and managed as criminals, others as mental patients. In either case, society needs protection from the aggressors. What does psychiatry contribute to the management of such persons? Civil commitment and the insanity defense: inculpating the innocent and exculpating the guilty. Both interventions authenticate as "real" the socially useful fictions of mental illness and psychiatric expertise. Both create and confirm the illusion that we are coping wisely and well with vexing social problems, when in fact we are obfuscating and aggravating them. Alas, psychiatric power corrupts not only the psychiatrists who wield it and the patients who are subjected to it, but the community that supports it as well.

As Orwell's (1949) nightmarish vision of *Nineteen Eighty-Four* nears its climax, O'Brien explains the functional anatomy of power to Winston:

> [N]o one seizes power with the intention of relinquishing it. Power is not a means; it is an end. One does not establish a dictatorship in order to safeguard a revolution; one makes the revolution in order to establish the dictatorship. The object of persecution is persecution. The object of torture is torture. The object of power is power. Now do you begin to understand me? (266)

The empire of psychiatric power is more than three hundred years old and grows daily more all-encompassing. But we have not yet begun to acknowledge its existence, much less to understand its role in our society.

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Does "Existence Value" Exist?

Environmental Economics Encroaches on Religion

ROBERT H. NELSON

In *Encounters with the Archdruid*, John McPhee (1971) relates a discussion he had with David Brower, regarded by McPhee and many others as the leading environmentalist of our time. Brower is talking about the real meaning of wilderness. He notes that

> I have a friend named Garrett Hardin, who wears leg braces. I have heard him say that he would not want to come to a place like this by road, and that it is enough for him just to know that these mountains exist as they are, and he hopes that they will be like this in the future. (74)

As Brower said of his own views, "I believe in wilderness for itself alone."

Economics as traditionally practiced, however, finds it difficult to accommodate this perspective on the world (Norton 1991). Human beings, the economics way of thinking assumes, live for happiness. Happiness is, moreover, a product of consumption. As the economist Stanley Lebergott

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(1995) writes, "the goal of every economy is to provide consumption. So economists of all persuasions have agreed, from Smith and Mill to Keynes, Tobin, and Becker" (149). Historically, there has been little or no place in economic thinking for the idea that something that is never seen, touched, or otherwise experienced—that is not consumed in any direct way—can have a value to an individual.

Yet, as McPhee's discussions with Brower indicated, this thinking rooted in economics was deeply at odds with an emerging environmental awareness that in the 1960s and 1970s was spreading widely in American society. Economists, it appeared, might be faced with an awkward choice: either reject their own economic perspective on the world or disagree with a powerful new social movement. Most likely, some economists were themselves drawn personally to the environmental values difficult to express in conventional economic terms. For them, the potential dilemma was also internal: either limit their own commitment to certain environmental goals such as the intrinsic importance of wilderness and endangered species preservation or reject the economic way of thinking in an important area of their life.

However, in a famous 1967 article in the *American Economic Review*, John Krutilla (1967) proposed a reconciliation. Krutilla suggested that the scope of economics should be expanded to include a new concept, which has come to be known as "existence value." The enjoyment of life need not have as its limit things that can be seen and touched. Consumption, even as economists think about it, should extend to include the simple fact of knowing that a wilderness, endangered species, or other object in nature exists. Formally, the variables in a person's "utility function" would not only comprise the amounts of food, clothing, and other ordinary goods and services consumed but also the various states of knowledge each person has of the existence of social and physical characteristics in the world. Implicitly at least, consumers would be willing to pay something for this form of consumption; hence the efforts by economists to estimate existence values in dollar terms (Mitchell and Carson 1989; Portney 1994).

By the 1980s, the concept of existence value was coming into use by a number of economists for purposes such as estimating the benefits of government actions or calculating damage assessments against corporations whose actions had harmed the environment. A federal appeals court in 1989 directed the Department of the Interior to give greater weight to existence values in its procedures for assessing damages to public resources under the Superfund law (*State of Ohio v. United States Department of the Interior* [D.C. Circuit. 880 F. 2d 432, 1989]). The concept has even been received favorably in literary circles such as the *New York Review of Books*, where the author of one article concluded that it would be central to achieving

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preservation of tropical forests and other world biodiversity objectives: "But why should citizens of industrialized countries pay to preserve resources that are legally the domain of other countries? An obscure tenet of economics provides a rationale. Certain things have what is known as an 'existence value'" (Terborgh 1992, 6).

The large dollar magnitudes that some economists were attributing to this new source of economic benefit emphasized its potential importance. In 1992, Walter Mead surveyed a variety of estimates of existence value. In one study the value to households across the United States of preserving visibility in the Grand Canyon was estimated to equal $1.90 per household per year, yielding a long-run discounted value to all U.S. households of $6.8 billion. Preservation of the northern spotted owl in the Pacific Northwest was estimated in another study to be much more valuable, having a total existence value for U.S. households of $8.3 billion per year. Still another existence-value study came up with higher numbers, asserting that, however implausible it might seem, preserving whooping cranes would be worth $32 billion per year for all the people of the United States. Having such impressive dollar estimates to cite raised the prospect for some environmentally concerned economists that the government might alter calculations of the economic merits of various policy proposals.

A Growing Debate

Initially, most of the economic discussion of existence value reflected the views of proponents. Beginning in the 1970s, a small circle of economists sought to introduce a novel concept to the profession and to show that it could be applied successfully in practice. At first, most mainstream economists paid little attention. However, as the potential uses have widened and the policy stakes escalated, an active debate has broken out in recent years within the economics profession concerning the merits of the existence-value concept (Bate 1994; Desvousges 1993a; Diamond and Hausman 1993; Edwards 1992; Kopp 1992; Quiggin 1993; Randall 1993; Rosenthal and Nelson 1992; Stewart 1995). Noneconomists also entered the controversy, in some cases questioning the use of existence value ("Ask a Silly Question" 1992; DiBona 1992).

The Exxon Corporation, facing large potential damage assessments as a result of the Exxon Valdez oil spill, and fearing that these assessments might be based in part on economic estimates of existence value for various states of nature in Prince William Sound, committed large financial resources to the issue. Exxon hired a number of leading economists to examine whether the use of existence value was an appropriate economic method. Their evaluation was on the whole negative (Hausman 1993). The state of Alaska

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and the federal government hired several leading environmental economists who took a more positive view (Carson and others 1992).

Reflecting the growing controversy inside and outside the economics profession, the National Oceanographic and Atmospheric Administration (NOAA) convened a panel of leading economists, chaired by Nobel Prize winners Kenneth Arrow and Robert Solow, to review the issue. In 1993 the panel declared that although great care must be exercised to prevent misuse, existence value should be included among the economic tools available to government analysts (Arrow and others 1993). However, the NOAA report failed to resolve the matter, and an active debate continues (Portney 1994).

From a technical economic standpoint, existence value raises a number of problems, which a growing literature has been probing. Massachusetts Institute of Technology economists Peter Diamond and Jerry Hausman (1994) conclude that "surveys designed to test for consistency between stated willingness-to-pay and economic theory have found that contingent valuation responses are not consistent with economic theory" (46). Other critics find that in practice existence-value studies often yield implausible estimates (Desvousges 1993b). For example, respondents to survey questionnaires sometimes give similar estimates for saving a group of wild animals from human harm, even when the exact number of animals specified in the surveys may vary by orders of magnitude.

Thus far, those who have actually attempted to measure existence values have studied mostly wilderness areas, threatened species, and other environmental concerns. However, the use of the concept is potentially much broader. People in rich nations may value the existence of tropical forests, but these same people may value the existence of higher incomes for poor people in poor countries, a goal whose fulfillment may depend on cutting the forests.

Indeed, possibilities for the calculation of existence value are endless (Milgrom 1993). Virtually any object invested with symbolic importance will have an existence value. For example, the presence of an abortion clinic in a community will cause some of the residents to feel good, others to feel bad. Burning the American flag will have a large negative existence value for many people. However, the knowledge that freedom of speech, including flag burning, is protected will also have a large positive value for many others. Should survey questionnaires, based on statements of dollar values as a way of communicating views about the desirability of government actions, be used to help resolve such issues? One can pose the same sorts of questions for a large array of issues.

Diamond, Hausman, and several other leading economists have called on the profession to abandon the use of existence value on both theoretical

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and empirical grounds, such as those noted so far (Diamond and Hausman 1994; Castle and Berrens 1993). But others, although acknowledging the significant difficulties and major potential pitfalls of the theory, argue that Americans care a great deal about the environment even when they are not directly affected and that any decision-making calculus not incorporating such preferences as a benefit would suffer from serious inadequacies (Carson and others 1996; Hanemann 1994).

Despite their importance, these particular issues are not my subject here. I conclude, like other critics, that the use of existence value should be abandoned. My argument, however, is grounded in what might be called "economic theology" (Nelson 1991). To be sure, I mean theology in a broader sense than Christianity or other traditional religions alone. The distinguished theologian Paul Tillich (1967) once said in all seriousness that in terms of actual impact Karl Marx was "the most successful theologian since the Reformation" (476). Secular religions such as Marxism, it is now common to point out, have been a dominant feature of the modern age, often the decisive force in shaping the course of history (Talmon [1960] 1985).

Secular religions do not speak directly of or appeal to God for authority. However, they are religions in the sense that they set a framework of meaning by which a person understands his or her life and the fundamental values that will shape it. Moreover, secular religions are often suffused with the same themes present in Christianity and Judaism (Glover 1984). In all likelihood, that is the explanation for their great appeal (Nelson 1991).

Existence-value methods have thus far been applied mostly to issues such as wilderness and endangered species that, I will show, have a religious basis. To anticipate my conclusion, the theological problem with existence value is that in such cases it attempts to answer a religious question by applying an economic method. Making estimates of existence value then is both as silly and as meaningless as asking how much the knowledge of God is worth.

Nature as the Path to Knowledge of the Divine

McPhee's discussions with Brower went well beyond the importance of preserving wilderness areas. Indeed, for Brower, wilderness was but one element in an overall worldview. For many years, Brower toured lecture halls on college campuses and other places across the United States, preaching what McPhee (1971) labeled "the sermon" (79). To many people, Brower's great appeal was essentially religious. As McPhee wrote,

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> to put it mildly, there is something evangelical about Brower. His approach is in many ways analogous to the Reverend Dr. Billy Graham's exhortations to sinners to come forward and be saved now because if you go away without making a decision for Christ coronary thrombosis may level you before you reach the exit. Brower's crusade, like Graham's, began many years ago, and Brower's may have been more effective. (83)

It was, and Brower enjoyed greatest influence in the segments of secular society where environmentalism was most popular and Graham's voice scarcely heard at all.

Indeed, Brower's approach had its own religious tradition, with its environmental prophets, great texts, and sacred sites. According to McPhee (1971), "throughout the sermon, Brower quotes the gospel—the gospel according to John Muir,...the gospel according to Henry David Thoreau" (84). As a former executive director of the Sierra Club for seventeen years in the 1950s and 1960s, Brower followed directly in the line of Muir, who had founded the Sierra Club in 1892. In the late nineteenth and early twentieth centuries, Muir was the foremost advocate of setting aside wild areas to preserve them for the future as free of human impact as possible.

For Muir, the wilderness had an explicitly religious significance. He referred to primitive forests as "temples" and to trees as "psalm-singing." As Roderick Nash (1973) writes in *Wilderness and the American Mind*, Muir believed that the "wilderness glowed, to be sure, only for those who approached it on a higher spiritual plane.... In this condition he believed life's inner harmonies, fundamental truths of existence, stood out in bold relief" (125–26).

For Muir this was one way of saying that he experienced the presence of God in the wilderness. On other occasions he was still more explicit. He believed that in the natural objects of wild areas, one could find "terrestrial manifestations of God." They provided a "window opening into heaven, a mirror reflecting the Creator," making it possible to encounter in nature some true "sparks of the Divine Soul" (Nash 1973, 125).

By creating the world, God had enabled human beings to experience directly a product of divine workmanship. The experience of nature untouched by human hand was as close to a direct encounter with God as possible on this earth. Yet, because of the spread of science and industry in the modern era, this opening to the mind of God was being erased. People were building dams, cutting forests, farming the land, and in many ways imposing a heavy human footprint on the divine Creation. It was only in the limited remaining areas of wilderness, as Nash (1973) relates, that "*wild* nature provided the best 'conductor of divinity' because it was least associ-

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ated with man's artificial constructs" (125). If all the wild areas should be lost, future generations would be forever cut off from this main avenue of contact with God.

All this is to say that for Muir a wilderness area was literally a church. A church is a place of spiritual inspiration, where people come to learn about and understand better the meaning of God in their life. In church especially, God communicates his intentions for the world. A wilderness church is, furthermore, in one sense more imposing and spiritual than any church people can build. A wilderness is a church literally built by God.

A Secular Religion

Today, the religious convictions that motivated Muir still lie behind the demand for wilderness, but with one significant difference. Environmentalism has become a secular religion. As Joseph Sax (1980) has said, in seeking to preserve national parks and other wild areas, he and his fellow preservationists are "secular prophets, preaching a message of secular salvation" (104). Roger Kennedy (1995), the former director of the National Park Service, agrees: "Wilderness is a religious concept," he wrote recently, adding that "we should conceive of wilderness as part of our religious life." Wilderness puts us "in the presence of the unknowable and the uncontrollable before which all humans stand in awe" (28)—that is to say, although Kennedy does not put it in just these words, in wilderness we stand in the presence of God.

In his essay "John Muir and the Roots of American Environmentalism," the distinguished environmental historian Donald Worster (1993) explores the process of secularization. Muir was brought up in Wisconsin and immersed in the doctrines of a strict Protestant sect, Campbellism. These doctrines would play a major role in shaping his thinking for the rest of his life. But like so many others in the modern age, by his twenties he had left the traditional religious forms of his youth well behind. As Muir said, "I take more intense delight from reading the power and goodness of God from 'the things which are made' than from the Bible" (Worster 1993, 193). Worster concludes that while the influence of Muir's youthful piety remained strong, he "invented a new kind of frontier religion; one based on going to the wilderness to experience the loving presence of God." This type of religion would later prove immensely attractive for the "many Americans who have made a similar transition from Judeo-Christianity to modern environmentalism" (195–96).

Although Muir abandoned the established Christian churches of his time, his writings contain frequent references to God. Today, environmentalists such as Brower seldom speak directly of God but do regularly describe

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experiencing a "spiritual inspiration," "sense of awe," "source of values," "humbleness of spirit," and so forth in the wilderness. These descriptions differ little from the language used by earlier generations to describe the feeling of being in the presence of God.

Many leading environmental thinkers in the United States today explicitly characterize their mission as "religious," if not as Christian. In *The Voice of the Earth*, Theodore Roszak (1992) states that "the emerging worldview of our day will have to address questions of a frankly religious character" (101). Environmentalism, he argues, will have to provide answers to "ethical conduct, moral purpose, and the meaning of life," and thereby help to guide "the soul" to the goal of "salvation" (51). In early 1996, Interior Secretary Bruce Babbitt stated that "religious values are at the very core of the 1973 Endangered Species Act" (ESA). Babbitt and other environmental leaders have sought to enlist Christian religious organizations to support the ESA as a "Modern Noah's Ark" (Steifels 1996, A12).

The present motto of the Wilderness Society, borrowed from Thoreau, is "In wildness is the preservation of the world," that is, the salvation of the world. In its appeals for public support, the Wilderness Society typically asserts of wilderness areas that "destroy them and we destroy our spirit... destroy them and we destroy our sense of values." The issue at stake in preserving wilderness is not merely a matter of the aesthetics of a beautiful landscape or the retention of a museum piece of the geologic past. The real objective, as the Wilderness Society declares, is to maintain the moral foundations of the nation.

This declaration might seem outlandish, or mere fund-raising rhetoric, to those who know little of the theological history of the idea of wilderness. However, in a long religious tradition that dates to seventeenth-century New England, "a genuine reading of the book of [wild] nature is an ascension to the mind of God, both theoretical and practical" (Miller 1954, 209). When the Wilderness Society tells us today that our national values depend on preserving the wilderness, it is only expressing in a secularized way what many others have asserted before: that without God, no foundation for values exists. And God, as Muir said explicitly and contemporary secular environmentalists say implicitly, is encountered most closely in the wilderness.

Although some people have seen modern environmentalism as borrowing from Asian, pantheistic, and other sources, the core of the religious conviction for most environmentalists is a secularized Christianity. This should not be surprising in a nation where Christian influence is ingrained in the national psyche, whether recognized explicitly in all cases or not.

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A Secular Puritanism

The process of secularization did not begin with Muir. He regarded himself as a follower of Emerson, whose writings he had studied closely. The philosophy of New England transcendentalism represented the critical point at which Christian theology—largely of a Puritan variety—adapted rapidly to the new demands of the modern age. Historian Arthur Ekirch (1963) observes that in the transcendentalist philosophy "nature was the connecting link between God and man"; thus, "God spoke to man through nature" (51–52).

Emerson, Thoreau, and other transcendentalists, in turn, drew much of their inspiration from their Boston forebears. If the transcendentalists saw an empty worship of false economic gods spreading across the land, the Puritans had always said that income and wealth were among the most dangerous corrupters of the souls of men. The Puritans also, as the Harvard historian Perry Miller (1954) commented, were "obsessed with" the "theology of nature." In Puritan theology of the colonial era,

> the creatures...are a glass in which we perceive the one art which fashions all the world, they are subordinate arguments and testimonies of the most wise God, pages of the book of nature, ministers and apostles of God, the vehicles and the way by which we are carried to God. (208–9)

The idea of a moral imperative to preserve every species—God's decree that every species has a right to exist—has religious origins deep in Western civilization. In the sixteenth century, Calvin said that human beings should be "instructed by this bare and simple testimony which the [animal] creatures render splendidly to the glory of God" (Kerr 1989, 27). Indeed, according to Calvin, God intends for "the preservation of each species until the Last Day" (41). The Bible, which some current environmental leaders are invoking, gave explicit instructions on this matter in the story of Noah and his Ark.

Jonathan Edwards, by some accounts America's greatest theologian, linked the seventeenth-century Puritans and their nineteenth-century New England intellectual heirs. Edwards said that "the disposition to communicate himself...was what moved [God] to create the world" (Miller 1964, 194). As Miller (1964) observed, "what is persistent, from the [Puritan] covenant theology (and from the heretics against the covenant) to Edwards and to Emerson is the Puritan's effort to confront, face to face, the image of a blinding divinity in the physical universe, and to look upon that universe without the intermediacy of ritual, of ceremony, of the Mass and the confessional" (185).

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The present environmental movement offers a secular Puritanism in more than its attitudes toward wild nature. As McPhee (1971, 83) relates, Brower commonly referred in his sermon to the human presence in the world as a "cancer." More recently, Dave Foreman, the founder of Earth First!, again said that "humans are a disease, a cancer on nature" (Looney 1991). As Paul Watson (1988), a founder of Greenpeace, put it, "we, the human species, have become a viral epidemic to the earth"—in truth, "the AIDS of the earth" (82). This all harks back to the doom and gloom of a Puritan world of depraved human beings infected with sin, tempted to their own destruction at every step by the devil and his devious tricks. It should be expected, the Puritan ministers said, that a sinful world would soon have to suffer a harsh punishment imposed by God, both on this earth and for most people in a life to come in hell.

In these and still other ways, environmentalism is today a powerful secular embodiment of the Puritan impulse in American life (Nelson 1993). Indeed, the Puritan tradition has had an extraordinary and enduring influence on the entire history of the United States. It is hardly surprising that although it is taking new and most often secular forms today, the Puritan influence is exerting itself once again. As Worster (1993) explains:

> The second legacy [of the environmental movement] from Protestantism is *ascetic discipline*. In large measure Protestantism began as a reaction against a European culture that seemed to be given over, outside the monastic orders, to sensuous, gratification-seeking behavior.... There was from the beginning, and it reappeared with vigor from time to time, a deep suspicion of unrestrained play, extravagant consumption, and self-indulgence, a suspicion that tended to be very skeptical of human nature, to fear that humans were born depraved and were in need of strict management.
>
> The Protestant tradition may someday survive only among the nation's environmentalists.... Too often for the public they sound like gloomy echoes of Gilbert Burnet's ringing jeremiad of 1679: "The whole Nation is corrupted...and we may justly look for unheard of Calamities." Nonetheless, the environmentalists persist in warning that a return to the disciplined, self denying life may be the only way out for a world heading towards environmental catastrophe.
>
> Surely it cannot be surprising that in a culture deeply rooted in Protestantism, we should find ourselves speaking its language, expressing its temperament, even when we thought we were free of all that. (197–98, 200)

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Today the environmental movement is strongest in Germany, Sweden, and Holland—all countries with strong Protestant heritages. By contrast, in France, Spain, and Italy, shaped much more by Catholicism, green parties and environmental groups play a much smaller role. In Latin countries the full body of the Catholic church itself—with all its history and authority—was the means by which God communicated with the world. The Pope was God's agent on earth; in the Catholic church the faithful could encounter the majesty and mystery of God.

Having expelled Catholicism, Protestants had to look elsewhere. They often found their spiritual inspiration in nature, hearing there the voice of God. The Puritans, who most ruthlessly eliminated ceremony and imagery, had a special need to find in nature a substitute for an abandoned mother church.

How Much Is a Church Worth?

This brief excursion into theological and environmental history should suffice to show that the existence value of wilderness, endangered species, and other wild objects in nature is as much a theological as an economic subject. Indeed, extending the concept of existence value to the maximum, one might conclude that God has the ultimate existence value. But unlike God, a candidate wilderness area can at least potentially be tangibly visited, even by those who value it most for the very fact of its existence.

Certainly, many people will find any talk of the dollar value of God to be sacrilegious. Not that long ago a person could be burned at the stake for less. Yet, as the previous discussion has indicated, calculating a monetary value for the knowledge of the existence of a wilderness area comes close to valuing God. Nature untouched by human hand, as found in a wilderness, gives access to knowledge of the existence and qualities of God. In secular environmentalism this message comes in an only slightly revised form: wild nature is "the true source of values for the world."

Admittedly, to value a wilderness in this way is to value the instrument of communication of religious truth rather than the actual knowledge itself. Thus, a more precisely analogous question would be: How much is the knowledge of the existence of a church worth?

At least in concept, this is an answerable question. Economists can point out that although leaders of institutional religions may be offended by the question, they do in fact make such calculations. Other things being equal, they regard more churches as better. But more churches also cost money. In making a decision at some point not to build another church, a religious organization is saying in effect that the religious benefit of the additional church is not worth the cost of building and maintaining it.

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How would one go about putting a marginal value on the existence of one more church (wilderness)? Answering this question, assuming a person is willing to think about the matter in these terms, would involve multiple concerns. One question would be: How much does a particular new church (wilderness) add to the religious education of the faithful? How many new people might it draw into the faith? A related question would be: How many churches (wildernesses) should a religious denomination ideally maintain, and how many does it have already? The answers obviously depend partly on the total number of faithful, their geographic distribution, and the expected growth of the religious group in the future.

Yet another factor is that the building of a church is not just a way to be spiritually uplifted. It can also serve to publicly and symbolically announce a depth of religious commitment and formally take an action for the glory of God. Building a grand cathedral, such as Notre Dame in Paris, can acquire a special religious significance when it involves a great sacrifice of effort—as religions have historically found meaning in making large sacrifices of many kinds. A wilderness area might become more meaningful in the same way: the more valuable the mineral, timber, and other natural resources given up, the greater the sacrifice and therefore the symbolic statement of allegiance to the faith.

The symbolic value of great sacrifice explains why the Arctic National Wildlife Refuge (ANWR) has become so important to the environmental movement. Its importance springs not just from the on-the-ground environmental features of the area—many other equally desolate and isolated places are also important to some group of wild animals. The truly distinctive feature of ANWR is that by leaving it untouched, so much valuable oil would potentially be sacrificed. Protecting the area offers a rare opportunity to make a powerful religious statement. An analysis of the benefits and costs of ANWR oil development thus becomes in major part an assessment of a trade-off between two alternative "uses" of the oil: (1) as fuel for a modern economy, and (2) as a symbol signifying the willingness of society to commit vast resources to preserve a multibillion-dollar cathedral, a religious edifice requiring such large sacrifice that it would stand as one of the greatest (certainly most expensive) testimonies ever made to the glory of the faith.

From a social point of view extending beyond the immediate members of the denomination, a church may be valued also by others outside the religion. Just as non-Catholics may admire the Vatican as a work of art or as an important part of their history, many people today no doubt value a wilderness as a museum of natural history. Wilderness areas often have beautiful scenery that can be set aside for others in the future to enjoy.

To be sure, the discussion of the potential analytical problems that surround putting a marginal value on the existence of a new church

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(wilderness) has begged the question of whether a religious body would ever want to do such a thing. Indeed, most religious leaders would likely reject any such suggestion out of hand. A church partakes of the sacred; to assign a money value to it profanes the faith. The very act of regarding the church in economic terms would in itself diminish the value of the church.

Many environmental leaders do in fact react much as other religious leaders would to proposals to measure the existence value of a wilderness. While recognizing a potential for political gain by making their case in economic terms, environmentalists on the whole have reacted coolly if not antagonistically to efforts by economists to calculate existence values for wild objects in nature.

Mark Sagoff (1994), current president of the International Society of Environmental Ethics, writes that "contingent valuation [is] an attempt to expand economic theory to cover environmental values.... But what makes environmental values important—what makes them values—often has little or nothing to do with 'preferences,' with perceived well-being, or with the 'satisfaction' people may feel in taking principled positions" (7–8). Aside from the many practical analytical problems, Sagoff rejects the calculation of existence value in principle as an imperialistic attempt by economists to substitute clever techniques for "the role that the public discussion of values should play in formulating environmental policy" (8). In short, the practice attempts to decide religious questions on (pseudo) scientific grounds.

Negative Existence Value

For Sagoff and many others, the very act of attempting to attach a money value to the existence of an endangered species, a wilderness, or other object of wild nature is itself a source of mental distress. It is like trying to put a money value on God, a sacrilege in any faith. Indeed, "negative existence values" may be almost as common as positive evaluations, because in any diverse society a cultural or religious symbol regarded favorably by one group will often be regarded unfavorably by some other groups. Not surprisingly, the members of the economics profession who advocate use of existence value have largely neglected this possibility.

Indeed, in the specific case of wilderness, some people do regard the existence of a newly created wilderness area as a symbolic affront to their own values. For some, it is offensive in the manner of throwing away good food, a deliberate waste of good timber, mineral, and other natural resources. A leader of the current Wise Use movement, Ron Arnold (1982), writes that wilderness and other curbs on development "have bit by bit impaired our productivity with excessive and unwise restrictions on forest and rangelands, on water and agriculture, on construction and manufacture,

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on energy and mineral, on every material value upon which our society is built" (123).

Although they might not phrase it precisely this way, other critics sense intuitively the following: the legal designation of a wilderness area represents symbolically a testimony to the glory of one faith, but this may be a faith different from their own, and they may thereby feel their own religious convictions diminished. One analyst has characterized the current fierce policy dispute over the creation of wilderness areas in southern Utah as at heart a clash between the Mormon theology of many Utah natives and a competing set of secular religious precepts (Williams 1991).

Still others might object that a wilderness is not a church of any institutional Christian religion. Indeed, the rise of environmentalism reflects the increasing secularization of American society—in itself an unpleasant thought to contemplate for some traditional Christians.[1] "Negative utility" may also arise when secular religions borrow Christian messages and values, even though the followers in these secular faiths may no longer be aware of the original inspiration.

Environmental Creationism

A "secular religion" is, in truth, an awkward construction. Such a religion typically appropriates the values, religious energy, organizational forms, and other features of an earlier established religion, usually in the Judeo-Christian tradition. Yet, frequently it sets all these attributes in what is said to be a naturalistic or scientific context. The dressing of religion in the garb of science may end up as an attempt to blend contradictory elements.

Consider the theology of wilderness as found in the secular faith of much of contemporary environmentalism. The Puritans believed one could go to the wilderness to gain a unique access to the mind of God. In the sixteenth and seventeenth centuries the Puritans could accept easily enough the biblical message of the Creation, identifying nature as a literal work of God untouched by human hand. But geological, biological, and other sciences since that time have determined that the earth is many billions of years old and has undergone countless upheavals and transformations. Perhaps a wilderness can help to reveal natural laws of the universe, and these laws may themselves reflect a divine source. However, a wilderness can

1. The Catholic League for Religious and Civil Rights, for example, reacting to speeches by Interior Secretary Bruce Babbitt that defended the Endangered Species Act in biblical terms, issued a press release "Bruce Babbitt Maligns Catholicism." Babbitt had said in his speech that he found more spiritual inspiration in nature than in the Catholic church of his youth. The president of the league, William Donohue, declared that the secretary's explanation of his religious turn away from Catholicism showed political "stupidity as well as unfairness." See *Human Events,* 12 January 1996.

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no longer in any real sense be said to reveal the original condition of the earth, as created by God.

Wilderness theology, in short, involves a form of creationism: sometimes with an explicit link to the Judeo-Christian story in Genesis; in other cases, with no explicit mention of God—a "secular creationism." Current environmental writings contain many references of both kinds to "the Creation"; two recent books on environmental matters are *Caring for Creation* and *Covenant for a New Creation* (Oelschlaeger 1994; Robb and Casebolt 1991). A magazine article on environmental philosophers describes the belief that the current need is for a "spiritual bond between ourselves and the natural world similar to God's covenant with creation" (Borelli 1988, 35). In much the same vein, and perhaps even more commonly, natural environments isolated from much European contact are widely referred to as a newly found, or currently sought after, "Eden" or "paradise" of the earth ("Inside the World's Last Eden" 1992; McCormick 1989).

Such language has begun to invade even mainstream politics: Vice-President Gore has said that we must cease "heaping contempt on God's creation" (Niebuhr 1993, A13). In a December 1995 speech remarkable for its candor in linking his environmental policy making to his religious beliefs, Interior Secretary Bruce Babbitt said that "our covenant" requires that we "protect the whole of Creation." Harking back to John Muir and to earlier Puritan theology, the secretary said that wild areas are a source of our "values" because they are "a manifestation of the presence of our Creator." It is necessary to protect every animal and plant species, he stated, because "the earth is a sacred precinct, designed by and for the purposes of the Creator."[2]

Such new forms of environmental creationism involve as much tension with the canons of scientific knowledge as with the older more familiar forms of Christian creationism. Although Babbitt referred specifically to God, others do not, even though they speak religiously of "the Creation." Some might find the secular version the most objectionable of all: prominent biologists and other physical scientists sally forth to attack Christian creationism as ignorant obscurism, even as some of them actively proselytize their own secular style of environmental creationism.

If awareness of these matters spreads, the designation of a wilderness area could come to represent yet another cultural symbol: the existence of a large element of religious naïveté, if not rank hypocrisy, among portions of

2. Bruce Babbitt, "Our Covenant: To Protect the *Whole* of Creation," circulated to top staff of the Department of the Interior through the e-mail system, 14 December 1995. This speech was delivered on various occasions, including to the League of Conservation Voters in New York City in early December 1995.

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the scientific establishment—yet another potential source of negative existence value for at least some people.

Whether the cultural symbol is established through a public or private action also affects the various forms of potential negative existence value. If a private group builds its own church, at least in America (it can be much different in other countries), few people are likely to be greatly upset, even though they may disagree strongly with the church creed. However, if the government builds the church, matters are altogether different. The government is not only spending taxpayers' money but making an official declaration formally affirming a particular set of religious values. A person might object strongly to the establishment of a government-owned and -operated wilderness area but have little or no objection to a private group's undertaking precisely the same mission. My arguments suggest that the present national system of wilderness areas should be privatized and any further wildernesses created privately as well (Nelson 1992).

Who Asks the Question Determines the Answer

The multiple meanings of wilderness are typical of cultural symbols. An X-rated movie provides valued sexual titillation to one person, while its very existence signifies society's moral decay to another. To some, the existence of a government welfare program may represent the compassion of society for the poor, but for others it may symbolize the coercive confiscation of hard-earned money from deserving people in order to give it away to undeserving others.

The proponents of the use of existence-value methods suggest that they can apply their techniques according to the canons of the scientific method. They suggest further that existence-value measurement, as a scientific exercise, will be replicable. Also, they argue that despite some people's suspicions, the results will not reflect the beliefs of the scientific investigators and that the more resources put into the investigation, the more consistent and reliable the estimates of monetary existence value presumably should become.

None of these things, however, is likely to occur in practice. In fact, when economists estimate existence value, they use uncomplicated methods. In essence, the economic researcher solicits answers to a survey questionnaire. The questions and the answers may be oral or written (sometimes with follow-up). For a particular wilderness area, for example, the questionnaire might begin with a brief description of the potential site and then ask how much money the person—who may be a thousand or more miles away—would be willing to pay to know that this place will be preserved for the future as a wilderness with minimal human intrusion.

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However, since the respondent often knows essentially nothing about the possible wilderness, it is typically necessary to provide some background for answering the question. This raises many potential difficulties. Consider some of the possible items that might be mentioned:

1. A brief physical description of the wilderness;

2. in order to provide some needed context, a brief description of how many total wilderness areas have already been established in the United States and how the particular potential wilderness area being studied fits into that broader picture;

3. inclusion of some historical context, such as an explanation of how the belief in preserving wilderness has been traced by leading scholars to John Muir and New England transcendentalists, for whom the purpose of visiting wild nature was to experience the presence of God;

4. for the survey respondents with an interest in theological analysis, brief reference to the idea that in light of modern scientific knowledge, the theology of wilderness today represents a kind of secular creationism.

To be sure, existence-value researchers no doubt would object strongly that administering the questionnaire with any such accompanying materials would bias the results, which is probably true. However, there may be no escaping this problem. To say that only "the facts" will be provided is untenable. Presenting all the facts is not feasible; one must make a ruthless selection. Why would a geologic description be factually more appropriate than a historic or theological description? To argue for the exclusion of the theological information may merely affirm the cultural values of a secular society.

Moreover, the more financial resources that are available and thus the more information that can be conveyed to respondents, the better a scientific analysis should be. However, in this case it will also exacerbate the selection problem. Unlike the normal scientific undertaking, the more systematic the effort, the more variable and thus problematic existence-value results may become. The only truly replicable analysis may well be one that conveys little information beyond the simple identification of the natural object under study, the replicability resting on nothing more than the commonality of ignorance.

Even stating such a minimal detail as that the wilderness has "a total area of such and such" would emphasize this feature relative to other poten-

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tial descriptions. Another person might think that a more important detail is that the potential wild area has, say, "the second highest elevation in Colorado." Who knows? The point is that no one can provide the background in objective terms. When it comes to matters of cultural symbolism, the researcher can supply the information needed by respondents only by knowing in advance the appropriate cultural frame of reference.

Yet, in matters of public policy debate that relate to the creation of cultural (in many cases religious) symbols, the appropriate cultural frame of reference is very often precisely the matter at issue. The economic researcher thus ends up merely translating his or her own value system, or that of the client providing the money, into a more formal and ultimately pseudo-scientific economic result.

Conclusion: Scientific Economics in Crisis

Economists introduced the idea of existence value in an attempt to solve a new problem facing their profession. The problem was real, but the existence-value cure is worse than the disease.

The economics profession emerged in the Progressive Era as part of the design for the scientific management of American life (Nelson 1987). Since then, economists have occupied a privileged position in American professional and intellectual life. The secular religion of America for much of the twentieth century was economic progress, a concept that transcended the mere satisfaction of crass material desires. The faithful believed that economic progress would bring the end of scarcity, and hence—or so it was supposed—eliminate most human conflict. The end result of economic progress therefore would be nothing less than the salvation of humankind, the arrival of heaven on earth (Nelson 1991).

Biblically, moral actions lead to salvation. Now, in Progressive theology, efficient and inefficient became virtually synonymous with good and evil. The efficiency of an action determined whether it contributed to economic progress and thus to the secular salvation of the world. Historians have aptly described Progressivism as "the gospel of efficiency" (Hays 1959).

As the group responsible for judging efficiency, professional economists became more than expert technicians; they became the ultimate judges of the morality of government programs, policies, and other actions. Not by accident were members of the economics profession, not Christian clergy or other social science professionals, designated by law to sit at the door of the president, by the Employment Act of 1946, which created the Council of Economic Advisors.

By the 1960s, however, this priestly role of economists as the dispensers of moral legitimacy in American society was confronting growing challenge.

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Many factors contributed, but one development probably had the greatest impact: the claims for the redeeming benefits of economic progress were not borne out by the actual history of the twentieth century. As a matter of material gains alone, the economic progress promised had in significant degree taken place in developed countries (rare success, it might be noted, for a theological prophesy). But the concurrent moral transformation also promised had not occurred. Heaven on earth seemed as far off as ever. Indeed, despite immense material advance, the twentieth century brought world warfare, the Holocaust, mass imprisonments in Siberian camps, and many other horrible events.

With belief in economic progress—or, as one might say more formally, "economic theology"—entering a period of crisis, environmentalism offered a new set of cultural symbols (Nelson 1995) and a new religious vocabulary. If a dam taming a raging river, showing human mastery of the wildest forces in nature, had been a cathedral to economic progress, in environmental religion the same dam became a virtual evil. For environmentalists the new cathedral would be a wilderness area. The Wilderness Act of 1964 officially announced the advent of a powerful new religious symbol in American public life.

Progressive religion had looked to the future; constant change signified continuing advance in building heaven on earth. The constant striving for efficiency ensured that progress would take place as rapidly as possible. The status quo, by contrast, was something to be left behind as rapidly as possible. What was "in existence" per se had no value.

All these ideals came into question, however, as the hopes for moral as well as economic progress clashed against the many unhappy events in the twentieth century. Perhaps constant change was not the path to salvation. Perhaps greater attention and value should be placed on what already existed. Indeed, preservation of wilderness took on such cultural significance because wilderness represented the longest existing thing of all: nature as it had existed since the Creation (or at least this image could be the symbolism, if hard to square with modern geologic science).

The economists who promoted a whole new realm of economic valuation, putting a value on "existence" for its own sake, very likely sensed all this. They saw that the vocabulary of economics, grounded as it was in the values of change, efficiency, and progress, faced growing doubts in important parts of American life. Many of these economists themselves probably sympathized in some ways with this trend of events.

But economists using the concept of existence value sought in effect to elevate new environmental values without abandoning the authority of the reigning economic language, as if to say that Christians and Muslims should stop fighting about religion because both are correct. If efficiency had long

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been a basic term of social legitimacy, why not simply redefine efficiency to encompass the value of preserving the existing state of the world?

This scheme was bound to fail. Theologically, it required that the forward march of progress should be measured by the extent to which people liked the cessation of progress. If belief in progress were to be displaced in the American value system, the accompanying vocabulary of progress would be abandoned. Existence value would lack pertinence because the very framework of efficiency analysis would no longer have much interest. Some new vocabulary and source of moral legitimacy—one can only guess at what it might be—would take the place of professional economics.

That economists continue to be consulted, receiving large payments to make estimates of existence value, merely indicates that the vocabulary of progress remains a contender in the American value arena. Appealing to efficiency still pays, even in cases in which the underlying goal may be to abolish efficiency. The remaining true believers in progress, however, should recognize that the introduction of existence value amounts to a Trojan horse. Seeming for a time to sustain the social role of economics, in the long run it can only help to undermine it.

I am not arguing that the critics of progress are wrong. Surely, they are right, at least in part, insofar as the Progressive gospel promised heaven on earth. Yet, few people seem prepared to abandon the material comforts that modern science and industry have delivered in such abundance. The ultimate future of progress, in any case, lies outside the scope of this article. The important point is that existence value has little or nothing to contribute to this particular religious discussion. The fate of progress will have to be resolved the old-fashioned way, through empirical observation, historical awareness, reasoned argument, moral judgment, testimonies of faith, theological analysis, and other traditional means of religious communication.

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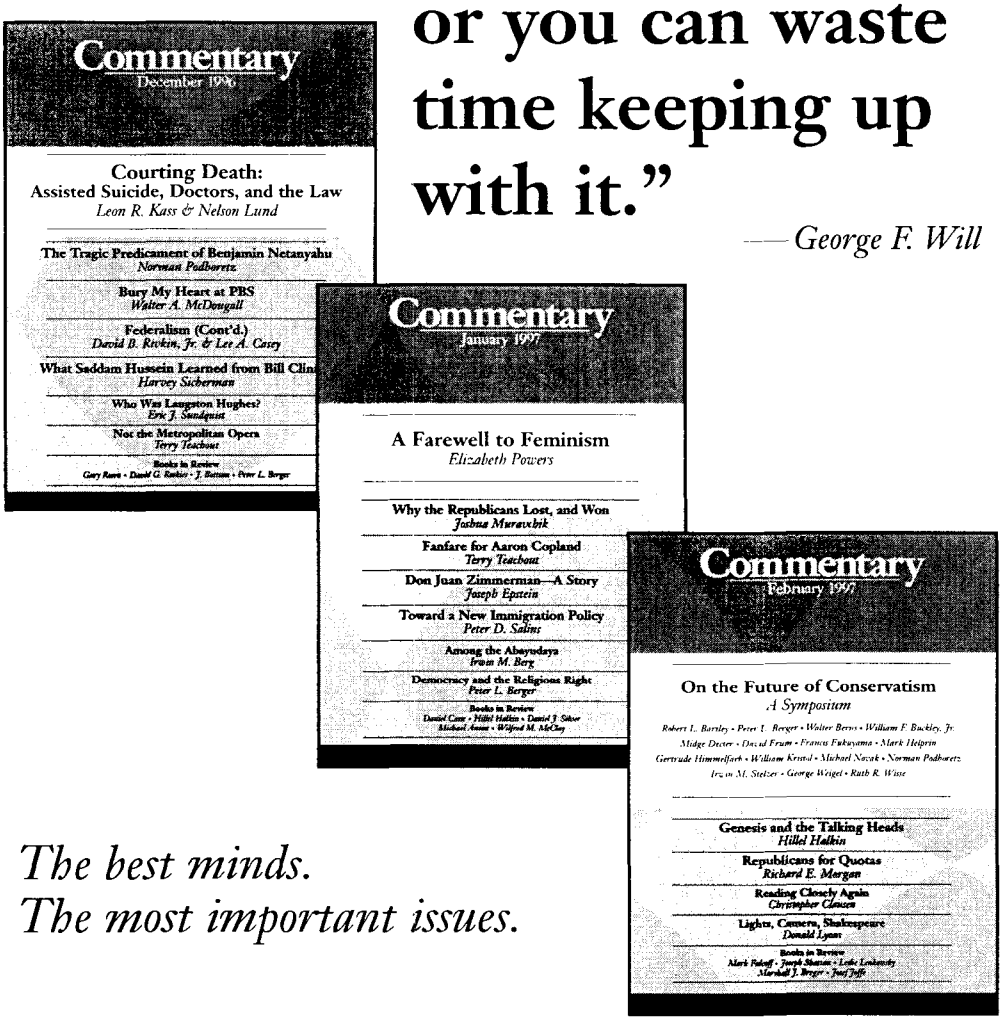

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Was Locke a Liberal?

JEROME HUYLER

For more than thirty years social scientists have been debating the relative influence of two ideological "languages," liberalism and republicanism, on past periods and important literary productions. Modern communitarians vie with contemporary liberals, hoping to retrieve vital elements of the *republican* tradition in order to ameliorate what they perceive to be the coarser aspects of liberal, capitalist life. The contributors to this conversation, however, sometimes seem trapped in a quagmire of confusion and dissension. These difficulties are hardly surprising in light of the frequent and simultaneous appearance of the ostensibly competing idioms—firm liberal commitments alongside clear republican concerns—in so many of the same political texts and revolutionary proclamations.[1]

Much of the problem lies in the very conceptual tools we take to our intellectual trades. In exploring the historical influence, exposing the contemporary crises, and debating the moral merits of liberalism as a monolithic social structure, we too often overlook the many important tensions that divide various and unnecessarily elusive liberal visions. And we miss the opportunity to weigh carefully enough the fuller meaning (and potential promise) of the speculative systems many thoughtful theorists labored to leave behind.

In reviewing the extensive literature surrounding the contemporary liberal-communitarian debate, it became clear to me that this much-attended scholarly dialogue is predicated on a peculiar estimate of what liberalism represents and recommends. Having spent a good deal of time

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1. The defining document of America's Revolutionary Age, Jefferson's immortal *Declaration*, is but a compendium of republican concerns and complaints affixed to a Lockean doctrine of natural right. For Jefferson, it was all the common sense of the day.

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reconstructing John Locke's liberal philosophy, I realized that something is definitely amiss. It dawned on me that Locke, so often pronounced the founding father of modern liberalism, would not choose to champion a liberalism that is what liberalism's communitarian critics suggest or say it is. Yet even liberalism's defenders have failed to remove the burdensome baggage loaded onto liberalism's beleaguered back. I propose to reassess the liberalism that has received so much recent scholarly attention by posing the question: If this is liberalism, was Locke a liberal?

In reconstructing the assumptions made about liberalism I shall revisit a number of fairly worn sources, including Sabine, Strauss, and Polanyi. Although many of their conclusions have been challenged and rejected, their formulations have been highly influential in shaping current attitudes and presuppositions about liberalism, capitalism, and Locke.

In this paper, then, I shall focus on *Lockean liberalism* precisely because a more careful reading of Locke's life and thought will reveal a socially active, intellectually commanding liberal theorist thoughtfully *rejecting* many of the major premises and features now commonly associated with liberalism (and, all too often, with Locke). In Locke's words and deeds, we encounter a leading liberal openly embracing and sometimes demanding human activities and relationships now commonly considered illiberal.

The practical usefulness of this kind of inquiry should not be underestimated. By more cautiously considering the complex, intellectually comprehensive vision of so thoughtful a liberal theorist, we may not only equip ourselves to resolve perplexing public disputes but also find a powerful tool for reforming some problematic aspects of contemporary political practice.

Locke, Liberalism, and Atomism

Essential to much contemporary discussion is the settled view that liberalism embraces a commitment to a vulgar individualism. Liberal man or woman is often presented as a social "atom," a being bereft of deep or enduring communal ties and obligations. Egoists, wholly preoccupied with their own self-interest and supremely acquisitive, liberals expect government to serve *them,* not the other way around. The state should be an impartial umpire, tolerating and supporting individuals in the pursuit of their personal purposes or life plans. What would Locke say of such a state of affairs? Traditionally, it has been supposed that he would heartily endorse it. Yes, it is Thomas Hobbes who most vocally depicts the barbarous egoist in the social environment—a war-weary state of "all against all...that ceaseth only in death." But scholars have often failed to find any less bellicose a being or hostile a social environment in Locke's imagined state of nature.

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If in nothing else, Hobbes and Locke agreed in their common design to ground civil society in a social contract signed by free and equal men rather than in a patriarchal theory that conferred divine-right grace on any sitting monarch.[2] Locke, far more than Hobbes, emphasized human rationality and the capacity to be guided by reason. The life of reason might even produce perpetual peace and tranquility, were it not for the few degenerate men who turn themselves into wild jungle beasts. But scholars became skeptical of a Lockean dualism that identified human nature as both rational and peaceful and "quarrelsome and contentious." Drawing out the full implications of Locke's discussion "Of Property," two of the twentieth century's most influential Lockean scholars, Leo Strauss (1953) and C. B. Macpherson (1962), projected a resolutely self-serving being inhabiting Locke's natural state. In his highly influential history of political thought, George H. Sabine (1937), schooled generations of budding scholars in the same approach.

> [Locke's] theory, in all its social and political implications, was as egoistic as that of Hobbes....[t]he two men fastened on social theory the presumption that individual self-interest is clear and compelling, while a public or a social interest is thin and unsubstantial. Perhaps the influence of Locke, precisely because it was less aware of its principles, was the more insidious.... Instead of a law enjoining the common good of a society, Locke set up a body of innate indefeasible, individual rights which limit the competence of the community and stand as bars to prevent interference with the liberty and property of private persons. (528–29)

This ready identification of liberalism (and Locke) with a stark individualism proceeds from more than just the association with Hobbes. The emphasis on egoism would become a staple of post-Lockean liberal thought. At first, though, it would be identified with a common good. The greatest good of the greatest number could be had, Adam Smith and Jeremy Bentham believed, if only individuals were set free to pursue their own good and allowed to enjoy the fruit of their labors. Permit such liberty, Bernard de Mandeville had urged, and private vices could be transformed into public virtues. The passions could be tamed and put to sound social use if people were allowed to pursue the peaceful commercial trades (Hirshmann 1977; Myers 1983). It was an outlook that later liberalism would progressively overturn (J. S. Mill [1838] 1962, 78–125; Bramsted and Melhuish 1978,

2. The most prominent divine-right theory of the time was that of Sir Robert Filmer, written during the English Civil War and first put into print on behalf of Stuart absolutism in 1679. Locke's explicit purpose was to refute Filmer and rescue the competing consent or contract theory from Filmer's scathing assault (Schochet 1975, 115–58).

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25–29, 271–78). In the era of early industrialization many looked with dark foreboding on the development of the individualist proclivity.[3]

In the same vein, many contemporary scholars who associate egoism or self-interest with liberalism, and liberalism with Locke, are also critical of its or his influence on human affairs. The division of labor might be economically productive (periodic panics and plunges aside), but the fracturing of society that accompanies liberalism's "progress" makes it a breeding ground for alienation and social conflict. "To separate labor from other activities of life and to subject it to the laws of the market," Karl Polanyi (1944) wrote, "was to annihilate all organic forms of existence and to replace them by a different type of organization, an atomistic and individualistic one" (163).

> To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity "labor power" cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man's labor power the system would, incidentally, dispose of the physical, psychological, and moral entity "man" attached to that tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation.... But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill. (73)

In short, Polanyi (1944) concluded, "The Industrial Revolution was causing a social dislocation of stupendous proportions, and the problem of poverty was merely the economic aspect of this event" (129).

3. Summing up the view of the individual economic actor in the literature of the period, Myers (1983) writes:

> Tucker sees him driven toward monopoly, and eventually poverty, by the insatiable appetite of self-interest. Smith describes his devious and conspiratorial nature and his corrupting influence on the economic policies of a great nation. Godwin finds him to be a rapacious exploiter of the laboring poor. Carlyle, with mordant raillery, ridicules the meanness of his interests, his calculating and utilitarian character. Dickens outlines strongly his primitive and thrusting nature on the one side, while emphasizing his cold and unemotional character on the other. For Ruskin economic man is the inhuman destroyer of those things giving meaning and quality to life. (26)

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More recently, Theodore Lowi (1969) predicated his famous prophecy (his "end of liberalism" thesis) on a similar psychological estimate. For Lowi, liberal capitalist society is rent with atomizing impulses. The perpetual process of "differentiation" shatters not only liberal society but the individual personality. Thus "we are led to a confrontation with the two central sources of disequilibrium in industrial societies. They cannot be eliminated, but rather must somehow be controlled. These are alienation and conflict. They seem to be as much a part of capitalist practice as is the market" (19). As society splinters into a Heraclitean flux, a kaleidoscopic maze of roles, statuses, and interests, the toll taken on the human personality mounts:

> Specialization [i.e., the steady multiplication of roles and statuses] reduces a person's chances of developing a whole personality; it can twist and depersonalize him or her. People thus become alienated from themselves; they become anomic. They also become alienated from other people—from their own families, from friends, from the community. Work becomes a mere matter of compulsion. People no longer own their own tools. Their labor, therefore *they,* become a commodity. Work can become separated from life, and life can become so divided and subdivided that one loses the human meaning of living. (19)

This is a very deleterious, if natural, tendency in modern societies. Lowi laments that "no longer do people grow up together, know exactly what to expect of one another, move in easy interactions by unconscious cues. Yet they must somehow interact, indeed more frequently and over a wider range of infinitely more complex expectations" (20). The "automatic or self-regulating mechanisms" break down, one by one, and society is left with the necessity of putting it back together again. Administration, what Lowi calls "the *sine qua non* of modernity," holds the key.

Polanyi's and Lowi's views are repeatedly echoed in the scholarly literature. For example, Christian Bay (1978) expresses regret that liberals (following Locke) "have placed on their humanistic pedestal a cripple of a man, a man without a moral or political nature; a man with plenty of contractual rights and obligations, perhaps, but a man without moorings in any real community, a drifter rather than a being with roots in species solidarity" (30). Similarly, Michael Walzer (1984) has written that under the liberal order the individual exists "wholly outside institutions and relationships and enters into them only when he or she chooses or as he or she chooses." That individual therefore "does not exist and cannot exist in any conceivable social world" (324). While diplomatically negotiating a union between the liberal and communitarian outlooks, Amy Gutmann (1992) defines liberal society as one

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> in which no one does more or less than respect everyone else's liberal rights. People do not form ties of love and friendship.... They do not join neighborhood associations, political parties, trade unions, civic groups, synagogues, or churches. This might be a perfectly liberal, even a just society, but it is certainly not the best society to which we can aspire. (134)

No doubt. But does any of this social and psychological fracturing inescapably inhere in liberalism as such? Is it at all compatible with, say, Locke's views of human nature and social life? Judging by the example of Locke's life and the unmistakable thrust of his writings, we would have to say *no*, certainly not.

In fact, Locke repudiates the atomist viewpoint at its ontological root. The Lockean individual is anything but metaphysically alone and unencumbered. He is a rational animal (as he was for another apostle of community: Aristotle). But he is also a social animal, a being naturally fitted for society. Opening book 3 of *An Essay Concerning Human Understanding*, Locke ([1690] 1959) explains: "God, having designed man for a sociable creature, made him not only with an inclination, and under a necessity to have fellowship with those of his own kind, but furnished him also with language which was to be the great instrument and common tie of society"[4] (bk. III, ch. 1, par. 1).

This remark should not come as a surprise. Locke, after all, did not fling himself into an untrammeled pursuit of private gain. He was not a poor man. He husbanded his resources, collected rents, lent money at interest, and invested modestly in commercial projects throughout his life. But by no stretch of the imagination did he lose himself in acquisitiveness and accumulation. Locke was one of the foremost social participants of his era, lending his considerable energies to a dizzying array of intellectual projects and, in many of them, collaborating eagerly with some of the leading lights of his day. Student of the esteemed physician, Thomas Sydenham, Fellow of the Royal Society, participant in an assortment of study and scientific groups and an avaricious correspondent, Locke was no less socially engaged than Aristotle before him or Karl Marx after him. Along with Francis Bacon, Locke believed that knowledge was a power to improve the conditions of life for generations to come, and that the cooperative search for and sharing of knowledge would facilitate its advance in the world. More than most, Locke availed himself of the steady opportunities for collaborative learning his civilization offered. His writings respond to an immense array of critical

4. Thus we immediately see a distinction that can be drawn between Lockean liberalism and the neo-Kantian liberalism of John Rawls, Ronald Dworkin, and other modern antiperfectionists.

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questions that puzzled his contemporaries. Only a few currents of seventeenth-century thought did not sweep Locke along with them.

Consider the discourses to which Locke consciously contributed: (1) the natural law/divine right dialogue begun by Hugo Grotius and pursued by Robert Filmer, John Selden, Richard Cumberland, and Samuel von Pufendorf; (Tully 1980; Horne 1990); (2) the antimonarchical, resistance literature of Protestant Huguenots in France and such notable Scotsmen as George Buchanan (Skinner 1978, vol. 2); (3) the growing agronomic science pioneered by such Baconians as John Everlyn and Samuel Hartlib (Wood 1984); (4) the great debate over commercial and economic issues, such as coinage, interest rates, and the regulation of commerce that so occupied the attention of Locke's friend and Royal Society Fellow, Sir William Petty (Locke [1691] 1825); (5) the important experiments conducted by Locke's close friend and colleague, Robert Boyle, and later by Sir Isaac Newton (Locke edited Boyle's scientific papers); (6) the controversy within latitudinarian Anglicanism over comprehension for dissenters (Rogers 1992; Marshall 1992); (7) the thorny theological questions raised by the latitudinarians, and the project to identify the minimal principles of Christianity one would have to avow to be comprehended within the Anglican worship (Locke 1695a, 1705); and finally, (8) the important contribution Locke made in the field of education (Locke 1695b, 1706). Nothing in any of this reveals an afflicted soul, socially adrift, alienated and alone.

Locke also could be a generous and humane benefactor to those who needed and deserved encouragement. Lady Damaris Cudworth Mashom, perhaps the person who knew Locke best, wrote of her dear friend:

> He was naturally compassionate and exceedingly charitable to those in want. But his charity was always directed to encourage working, laborious, industrious people, and not to relieve idle beggars, to whom he never gave anything.... People who had been industrious, but were through age or infirmity passed labour, he was very bountiful to...[believing not] that they should be kept from starving or extreme misery...[but that] they had, he said, a right to live comfortably in the world.[5] (Amsterdam: Remonstrants' Mss. J. 57a, cited in Cranston 1985, 426)

Turning from the example of Locke's life to the moral recommendations in his writings, we again witness an individual devoted to charity and social affiliation. Locke made a clear and dramatic statement on the subject of charity in a brief essay titled "Venditio." Intended as a justification of unregulated market prices, it includes as well a critical caution: If a seller

5. The distinction drawn by Locke between the deserving and undeserving poor reflects the attitude of the latitudinarians generally (Jacob 1976, 55).

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"extorts so much from...[his buyers'] present necessity as not to leave them the means of subsistence afterward he offends against the common rule of charity...and if any of them perish by reason of [his] extortion *is no doubt guilty of murder*" (Locke 1968, 86).

In his educational writings, Locke dramatically fills out his idea of how human beings should behave toward one another. Throughout his *Some Thoughts Concerning Education,* he seeks to inculcate a liberal and benevolent temperament. Although he perceives that "children, who live together, often strive for mastery," Locke condemns such behavior and states that children "should be taught to have all the deference, complaisance, and civility one for the other imaginable." They should be shown that instead of this "insolent domineering," a benevolent care for others will "procure them respect, and that they lose no superiority by it, but on the contrary, they grow into love and esteem with every body" (1695b, 109). Locke enjoins parents and tutors to instill the virtue of "Liberality" in their charges: "As to the having and possessing of things, teach them to part with what they have easily and freely to their friends; and let them find by experience, that the most liberal has always most plenty, with esteem and accommodation to boot" (par. 110). Thus, "by a constant practice" of generous acts, Locke expects that "good-nature may be settled...into an habit, and [maturing children] may take pleasure, and pique themselves in being kind, liberal, and civil to others," (par. 110) and he advises parents to instill in their progeny a "natural temper of benignity and compassion" toward others (par. 116).

None of these beliefs preclude the clear Lockean endorsement of industrious, lifelong labor and the free enjoyment of its fruits. Yet even the acquisitive proclivity must be subordinated to moral law and rational discipline: Reason teaches "that being all equal and independent, no one ought to harm another in his life, health, liberty or possessions" ([1690] 1965, par. 6). Men may discard reason, succumbing to their own unruly passions for riches or power and turning themselves into jungle beasts. True Levelers pressed by hard times may act so, as may sitting kings, puffed up by their own patriarchal pretensions. In this context Locke warns that "covetousness and the desire of having in our possession, and under our dominion, more than we have need of" is "the root of all evil" (1695b, par. 110). But despite Tully's invocation of this language to argue for Locke's commitment to Christian altruism (1980, 150), Locke does not intend to recommend altruistic sacrifice here. Rather, his advice bespeaks a generous temperament that really costs a person nothing. Locke (1695b) says: "Let [the child] sensibly perceive, that the kindness he shows to others is no ill husbandry for himself, but that it brings a return of kindness, both from those that receive it, and those who look on" (par. 110).

Although Locke certainly allows individuals to ambitiously augment

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their fortunes, or at least amass what would be called a decent competence, he does not gauge men's worth by their wealth. He castigated the wealthy lords of the Stuart court not just for their design to impose absolutism on England but for giving their lives to debauchery, gaming, and luxuriant idleness, and so squandering their natural and inherited resources. He happily befriended many a man of humble origins and means, such as Thomas Firmin and Isaac Newton, who laid claim to far more fame than fortune.

If we take liberalism to be unavoidably wedded to an "ethic" of narrow, selfish acquisitiveness (à la Marx or Macpherson), then we must conclude that Locke was no liberal. Lockean individuals are suited for society, and it is fitting that they function actively within it. Yes, human ingenuity would find an outlet for its private pursuits in a dizzying assortment of useful callings. But cooperative ventures of every imaginable description are possible and advisable. The honest and industrious application of one's endowments, not abundance of material possessions, matters most for Locke. The project was Baconian through and through. Constant improvement in the conditions of life was the universal desideratum ordained by divine providence, the key to "Preservation" in the fullest sense. Its pursuit would bring forth both the peaceful competition and the productive collaboration of socially active and commercially engaged Englishmen.

Liberalism versus Republicanism

A conception of liberal life as essentially solitary and brutish has a profound implication for political association. Liberalism, it is said, rudely undervalues civic virtue and depreciates the currency of participation. All the liberal wants from government is protection, and perhaps a few "encouragements." Now, Locke's strong political defense of property in the eleventh chapter of his *Second Treatise*, together with his stunning support in the fifth chapter for acquisitiveness and accumulation, should allow us to label Locke a liberal, and therefore to contrast this apostle of liberal capitalism with his more civic-spirited contemporaries, the modern apostles of republicanism. This republican creed, first advanced in the writings of Aristotle, Cicero, and Polybius, advertised in the famous *Lives* of Plutarch, then revived and revised in the modern works of Machiavelli and James Harrington, emphasized civic virtue and the good of the res publica. It is only the republican who, like Aristotle, finds his highest fulfillment in political participation or who, like Socrates, at least acknowledges duties to the community that gives one life, language, and social identity.

For decades scholars have debated the relative influence of the Lockean liberal and republican "paradigms" on the events that culminated in the American founding. The question has been largely in the form of either/or.

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But as recent scholarship makes abundantly clear, the influence of both ideological outlooks is evident almost everywhere in the fateful period bridging America's exceptional birth and meteoric growth. In fact, this apparent "confusion and profusion of political tongues," as Kramnick (1988, 4) called it, was already an old development in 1776. The highly influential *Cato's Letters* (1720–23) combines liberal commitments and republican preoccupations in 144 tightly crafted essays (Pangle 1988; Hamowy 1992).[6]

But Lockean liberalism was present at the very birth of the modern republican tradition. Long ago, Pocock (1973, 115) pointed to the neo-Harringtonian turn that ideological developments took in Restoration England. He traced the dynamic new "Commonwealthman" ideology, which would exert so much influence on eighteenth-century radicalism, to the estate of Anthony Ashley Cooper, the first earl of Shaftesbury. Weary of the court's campaign against religious dissent and its treacherous treaties with the tyrannous French, and wary of the eventual accession of James Stuart, a practicing Catholic, Shaftesbury mounted a parliamentary campaign to bar James from succeeding his brother Charles II to the English throne. The interesting point is that from 1667, when Locke took up residence in the Cooper household, the champion of liberalism and radical individualism served as Shaftesbury's closest confidant and "assistant" political pen. As Maurice Cranston (1985) and Richard Ashcraft (1986) have clearly shown, Locke's *Two Treatises of Government* (which will be signified by *ST* henceforth in this article) was intended to serve the cause of exclusion and so serve Shaftesbury's important political purposes (toleration toward religious dissent and resistance to Stuart absolutism). Parliamentary bills were introduced, between 1679 and 1681, when King Charles II suspended Parliament and Shaftesbury saw the need to mount and defend a more radical movement. Supporting this movement was the contemporary aim of Locke's *Two Treatises* (Ashcraft 1986). Historically, then, Lockean liberalism and neo-Harringtonian republicanism are joined at the trunk. It is hardly surprising that Alan Craig Houston (1991, 224–25) discerned a Lockean stamp on Algernon Sidney, the great republican theorist and martyr. Similarly we should not overlook the supremely civic sacrifice Locke, the scion of "radical individualism," accepted for the sake of civil liberty and the good of his commonwealth. What Shaftesbury, Locke, and thousands of other English-

6. Elsewhere, I argue (1995) that the two allegedly opposed ideological "idioms"—Lockean liberalism and republicanism—are not idioms and are not opposed. They are, rather, two sets of answers to two distinct sets of political questions. Republicanism contributes to the science of politics; Lockean liberalism belongs to the fundamentals of politics (or moral philosophy). They stand in relation as necessary means to the achievement of legitimate ends. Locke explicitly discusses this division of the branches of human understanding (esp. chap. 8).

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men feared and hoped to thwart was the prospect of a monarch religiously responsive to the authority of a foreign Pope and puffed up by a pretentious divine-right doctrine. It was a danger to be resisted at all costs, for it threatened liberty in the political and the private sense. A political tyranny of the Catholic kind augured religious intolerance, persecution, and conflict, as well as a dire disturbance to property and commercial freedom.

But Locke's public life neither began nor ended with his radical activities. In 1665 he accepted a diplomatic mission to the elector of Brandenberg. He held several public offices during his patron's tenure, first as chancellor of the exchequer and then as lord chancellor of England. Following the Glorious Revolution and though already in his sixties, Locke returned again to public service, as an active and esteemed member of England's Board of Trade. Indeed, it is not stretching things to say Locke devoted his entire life to patriotic service and the welfare of his country. Why else does one delve into the deepest and thorniest questions of metaphysics, morals, epistemology, and theology and, at considerable risk, put one's "dangerous" thoughts into print? Had Locke devoted even a large fraction of his considerable energies to narrow economic gain, he would no doubt have died, in 1704, one of England's wealthiest landed lords or commercial barons.

If Locke's life and writings exemplify liberalism, then at least one liberal project conforms to the republican blueprint in virtually every detail. What does that conformance say about liberalism, and about Locke? Can one cogently argue that Sidney and Shaftesbury were good "commonwealthmen" but Locke, who stood shoulder to shoulder with them, was an unbridled egoist? Locke perceived, as did liberal writers such as Smith and J. S. Mill, that individuals' fortunes are intimately tied to the fortunes of the polity in which they reside. Only under a limited constitutional government can rational people conduct the industrious lives that human preservation demands (and Locke's Maker ordains).[7] Only under such conditions can

7. This argument raises an interesting distinction between Locke and neo-Kantian liberalism, which demands that only by eschewing a conception of the good life and fundamentally asserting each individual's right to determine his or her own life plan can a tolerant society sustain itself and not sink into intolerance and conflict. Once a liberal theory is rooted in some particular conception of the good, then that conception will ultimately prevail and those who evade its constraints will suffer for their recalcitrance. Yet Locke consciously established a fundamental conception of the good (comprising the will of a Christian Creator and the nature of His creation), while fashioning himself one of Western civilization's foremost champions of liberty and toleration. The character of reason, and the pivotal role Locke assigns to it, commands a liberal tolerance for unrestricted choice—and stiff civil sanctions for its violation. He asserts that

> The *Freedom* then of Man and Liberty of acting according to his own Will, is *grounded* on his having *Reason*, which is able to instruct him in that Law he is to govern himself by, and make him know how far he is left to the freedom of his own will." (*ST*, par. 63)

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individuals both worship according to their wills and happily pursue their callings. In sum, if liberalism is home to selfish citizens, apathetically ignorant of the civic duties that liberty and security demand, then Locke surely would not like to live there.

Locke, Capitalism, and Class Privilege

If we turn to the economic implications of Locke's liberal teaching, similar conceptual difficulties unavoidably emerge. Is Lockean liberalism compatible with capitalism? To a large extent, yes—but not entirely. It depends on what cache of practices and prizes one expects to find in such a political economy. Like liberalism, capitalism is conceptually complex, comprising a variety of ideas and social arrangements. Some of the features we commonly associate with liberal capitalism flow from Locke's fundamental premises, whereas others can only deny and defeat them. Insofar as he recommended an active, industrious life given to production, free trade, and industrious appropriation, Locke certainly seems an apostle of capitalism. Insofar as a market economy rests on the principle of private property and the sanctity of contract, Locke again serves as one of capitalism's stalwart defenders. Having a property in their own persons, all individuals are naturally at liberty to choose and pursue any suitable outlet for their industrious energies. In civil society all remain free to go after, get, keep, use, and dispose of the product of their exacting labors, be it the fruit of the vine they planted, the profits returned on their investments, or the wages for which their labor was contracted. All of this is property and all of this—however large, however little—is private. The right of disposal implies a commitment to the principle of contract and a due respect for its sanctity. And, because Lockean speculation starts from a premise of natural equality, which equal laws are to respect, the fundamental rights of one are the rights of all.

Here Locke's association with capitalism, at least as we conceive it, becomes tenuous. We stand before a peculiar conceptual fork in the historical road and, unlike Yogi Berra, we cannot simply take it. We must decide which path leads to Locke and which to capitalism. Do the two paths eventually connect or, at this peculiar juncture, do Locke and capitalism forever part company? The principle of property is legitimized insofar as it is universalized. And it is universal only insofar as it is handled as a resolute principle of equity applied to every species of property and to all property holders. As all persons are born with a natural property in themselves, upon reaching the age of discretion, all are entitled to an equal share of liberty.[8] "Being all equal and independent," Locke says, "no one ought to harm another in his

8. For a compelling treatment of gender bias in Locke's thought and seventeenth-century life, see Carol Pateman (1988).

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life, health, liberty or possessions" (*ST*, par. 6). Brought into civil society, this universal principle of property finds expression in an economic corollary: a free allowance for market relations in which labor and property are voluntarily exchanged. Like many economists of his day and the great classical economists to come, Locke perceived the sheer practical utility of free trade. We might call this system capitalism, except that virtually all capitalist societies have acted in some respects in defiance of the principles of equity, property, and free trade. The contentious questions of slavery, Native American populations, and gender inequity aside, many public "encouragements" have been awarded by governments to privileged segments of the economic community. Historically, both the ruling landed and the rising commercial classes have clamored and campaigned for such public emoluments. To the political victors invariably went the economic spoils.[9] Although usually defended in the name of progress, prosperity, and the greatest good, all such legislation invariably benefits some individuals and classes at the expense of others.

But what does the political economy of capitalism, so understood, signify for the precept of liberal equality? And what would Locke say of such "class" legislation? Exactly which class or classes did Locke ever seek to *politically* accommodate? Examining the requirements of ideological debate in Restoration England, Ashcraft found Locke defending the emerging commercial classes, an interest group Shaftesbury needed to attract for his exclusion campaign. Locke roundly criticized the idle lifestyles of the landed, pro-court aristocrats, who conspired to foist divine-right absolutism on free Englishmen. However, in his *John Locke and Agrarian Capitalism*, Neal Wood (1984) pointed to Locke's deep affinity for agriculture in general and for the landed interest in particular. Wood noticed Locke's vocal antipathy to the leading commercial institutions of his day—the bank of England, stock jobbers, bankers, and the legal monopolies awarded to great and well-connected trading companies. When in the 1660s and again in the 1690s Sir Josiah Childs, speaking for England's merchant classes, pressed for a plan to legally lower the rate of interest from 6 percent to 4 percent (ostensibly to promote investment and trade), Locke voiced strong opposition. He strongly objected to other economic interventions, such as Sir William Lounde's proposal to alter (and debase) the coinage.

9. Such political inequality is reflected in a wide variety of historical patterns, including the distribution of public offices and public contracts in the age of Walpole, factional competition for public benefits in colonial America, the benefits that would accrue to nascent financiers and industrialists from Alexander Hamilton's Reports or Henry Clay's American System, and the triumph of "political capitalism" in the Republican-dominated post-Civil War era, which featured cash and land subsidies for the transcontinental railroads and strong tariff protection for privileged producers.

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On what grounds did Locke condemn such public policies? Clearly a utilitarian quest to accomplish the greatest good for the greatest number is evident, as Locke exposed the self-defeating consequences of such interventions. But Locke's principal concern was more philosophical. The rejection of political privilege was ultimately grounded in Locke's deepest moral commitment to liberty and equality. The market rate of interest, he declared, should float as freely as the rate fetched by any other market commodity, such as land. The taking of interest and the taking of rent, he maintained, are morally equivalent and just. Therefore, public interference in the market's allowance for interest taking or rent taking is a denial of justice. Nor was Locke solely concerned with the rights of the well-to-do. For

> it will be a loss to widows, orphans, and all those who have their estates in money...[and who] have as much right to make as much of the money as it is worth (for more they cannot), as the landlord has [to] let his land for as much as it will yield. To fine men one-third of their estates [by imposing a four rather than a six percent rate], without any crime or offense committed...[and] transfer a third part of the moneyed man's estate, who had nothing else to live on, into the merchant's pocket; and that without any merit in the one, or transgression in the other, seems very hard. (1825, 243–44, 225–26)

Because for Locke all political reasoning proceeds from the premise of human equality—that is, every individual being born with inherent, indefeasible rights—the principles of liberty and property apply for all. It is not that all men are equal in their native capacities. Nor is good fortune distributed equally by nature:

> Though I have said...that all Men by Nature are equal, I cannot be supposed to understand all sorts of Equality: Age or Virtue may give Men a just Precedency: Excellency of Parts and Merit may place others above the Common Level;...and yet all this consists with the Equality, which all Men are in, in respect of Jurisdiction or Dominion one over another...being that equal Right that every Man hath, to his Natural Freedom, without being subjected to the Will or Authority of any other Man. (*ST*, par. 54)

Although the thrust of Locke's equalitarian doctrine is political, its roots are metaphysical. The fundamental precept of equal creation finds expression in a juridical concept of equal protection. Signifying far more than the customary rights of the criminally accused (e.g., the presumption of innocence or the right to a speedy and public trial), that pregnant concept brooks no species of special privilege, no class legislation. It counsels a

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steady regard for the rights, the liberties, and the property of all. "The great and chief end of Men's uniting into Commonwealths and putting themselves under Government" is not the collecting of tax revenue or compliance with majority opinion; it is "*the Preservation of their Property*" (*ST*, par. 124; cf. 94, 95, 116, 127, and 131). The prohibition against special advantages or privileges going to some, ultimately at the expense of others, is all but absolute. It is not a question merely of prudence, but of natural and absolute right.

> For nobody can transfer to another more power than he has in himself; and no Body has an absolute Arbitrary Power...over any other, to...take away the Life or Property of another.... And having in the State of Nature no Arbitrary Power over the Life, Liberty or Possessions of another, but only so much as the Law of Nature gives him to the preservation of himself;...this is all he doth, or can give up to the Commonwealth...so that the Legislative can have no more than this. (*ST*, par. 135)

If capitalist government becomes the financial tool of the ruling economic classes, as historically it has been to a great extent, then it is a social formation that Locke must disavow. In creating winner and loser classes, public privileges defeat the precept of equality. Moreover, by dint of the power of precedent, a single instance of the practice places all property in the hands of society to distribute according to any plan whatsoever. A government that can legitimately redistribute a single dollar, ducat, pence, pound, or parcel of land can, in principle, redistribute all the wealth in the world. This tendency is precisely what Locke's philosophy of government and Shaftesbury's resistance movement had to resist.[10] In truth, Locke favored no particular economic class. He stood up for the principles of industry and equity, barring government from subsidizing any one interest by impoverishing or impeding the liberties of another.

Against such a reading, notable scholars argue that Locke intended property to be purely conventional within civil society and subject to social redistribution for the sake of preservation for all mankind (Tully 1980; Ashcraft 1992, 14–49). Some have viewed Locke as a warm proponent of majoritarian democracy (Kendall 1965). Locke certainly does invoke the principle of majority rule. For, if majority rule "in reason, not be received, *as*

10. As Ashcraft (1986) has persuasively reasoned, Shaftesbury needed to persuade the propertied classes that in rejecting divine right and grounding government in the consent of the governed, their own property would not be swiftly confiscated by a clamorous and contentious democratic "mob." And yet Ashcraft, following Tully, believes that Lockean liberalism sanctions the distribution of property on behalf of the most vulnerable in society (1992, 14–49).

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the act of the whole,...nothing but the consent of every individual" would suffice, something "next impossible ever to be had." Therefore, "every one is bound by that consent to be concluded by the *majority*" (*ST*, par. 95–98, emphasis added). Many laws have to be written and penalties for their transgression affixed. A thousand legal questions have to be decided, and majority will is the only practical means of deciding them. But Locke denies that "*by being born under any Government we are naturally Subjects to it,* and have no more any title or pretence to the freedom of the State of Nature" (*ST*, par. 116). On the contrary, he declares,

> The Obligations of the Law of Nature, cease not in Society, but only in many Cases are drawn closer, and have by Humane Laws known Penalties annexed to them, to inforce their observation. Thus the Law of Nature stands as an Eternal Rule to all Men, *Legislators* as well as others. (*ST*, par 135)

This law informs us that only to preserve their property—life, liberty, and possessions—do individuals give up the executive power they had in nature, to be governed by settled and known laws.

The crux is that "promulgated established laws" are "not to be varied in particular Cases, but to have one Rule for Rich and Poor, for the Favorite at Court, and the Country Man at Plough" (*ST*, par. 142). In modern terms, we can say that the indefeasible principle of property trumps the majoritarian and pluralist political panaceas. If liberal capitalist societies are governed by and for the capitalist classes, or any special interests, then Lockeanism trumps liberal capitalism as well. Insofar as the principle of property is concerned, the gap separating Lockean liberalism from nineteenth- and twentieth-century liberal political practice is certainly substantial.

Assessing Liberalism: A Final Word and Prolegomena

So what are we to make of a liberal theory that (1) portrays man as both an acquisitive individual *and* a social animal, (2) rejects egoism for benevolence and social cooperation, (3) heartily endorses civic participation, even patriotic sacrifice, and (4) defends property and capitalist growth while categorically denying capitalists access to the public treasury or any other species of "class" legislation? Judging from the longstanding liberal-communitarian debate, no such ideology exists. Where is the sharp ideological space separating liberalism and republicanism? Where is the metaphysical gap between ontological atomism and innate human sociability? And just how many species of political privilege implicit in the currently reigning conception of liberal capitalism or interest-group liberalism are securely barred by Locke's

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peculiar liberal theory? Is Locke's political personality split, or do we ourselves suffer from a form of cognitive dissonance? Are Locke's ideological "abnormalities" simply the product of our own (post-modern) making? Have we failed to identify clearly enough the lines of ideological conflict in Restoration England or Revolutionary America? These questions should pose a serious challenge for historians, social scientists, and philosophers. They certainly call into question the utility of the analytical tools we all take to our intellectual trades.

But they do not blunt the larger liberal critique of Lockeanism. Even acknowledging Locke's sociability, benignity, and civic-mindedness, much remains for post-Lockean liberal theory to assail, much that strikes the modern eye as profoundly illiberal. Where is the democratic provision for majority rule or for the fair play of pluralist social forces? Where is the power to legislate not in the name of divine natural right but for the greatest good of the greatest number? How is lawful authority to experiment with whatever expedient might help alleviate the immediate crises at hand? Where is the power to foster economic equality, in keeping with communitarian or Rawlsian right? And what remains of modern liberalism once it has been stripped of these democratic and egalitarian ideals?

Actually, liberalism's critique of Locke cuts much deeper and appeared much earlier. Nowhere is that critique more swollen with piercing invective than in Bentham's ([1824] 1962) vehement repudiation of all natural-rights claims. Having in mind the French Revolution but implicating Lockean natural right as well, Bentham stormed against the idea that "Men are born and remain free, and equal in respect of rights" (498). "Absurd and miserable nonsense" (498) he called it. Of the view that the end of political association is the "preservation of the natural and imprescriptible rights of man," he replied, "More confusion—more nonsense,—and...as usual, dangerous nonsense" (500) To what must natural-rights doctrines ultimately and inevitably lead? Bentham answers, "the terrors of anarchical despotism" (499). He insists that

> there are no such things as natural rights—no such things as rights anterior to the establishment of government—no such things as natural rights opposed to, in contradistinction to, legal: that the expression is merely figurative; that when used, in the moment you attempt to give it a literal meaning it leads to error, and to that sort of error that leads to mischief—to the extremity of mischief. (500)

With exasperation Bentham exclaims: "*Natural Rights* is simple nonsense: natural and imprescriptible rights, rhetorical nonsense—nonsense upon stilts" (501).

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Perhaps, but what sturdy obstacles to expansive state capacity are eliminated with the demolition of these "mythical" natural rights? What might liberal governments *not* endeavor to accomplish, in the crucible of time, in the name of a greatest good or the greater number? Well might we conclude that with the passing of the liberal torch from Locke to Bentham, the very foundations of political authority were uprooted and reconstructed.

Does it make sense, then, to talk about "liberalism" as such? Is it useful to weigh the moral merit, historical tendencies, or "iron laws" of something with no discernible shape or conceptual boundary? Whereas some (Spragens 1995) can conceive of a "communitarian liberalism," others (Walzer 1984) can glimpse a consistent liberalism that "passes over into democratic socialism" (323). But communitarian views aside, in joining the ideas of utilitarianism, interest-group pluralism, majoritarianism, procedural liberalism, and capitalism, and appending to all of this the original conception of liberalism bequeathed by Locke, do we not load ourselves with too much baggage to carry or intellectually inspect? Is it reasonable to discuss in the same intellectual breath the conception of government outlined by Locke or Mill or Smith, say, and the politics actually practiced in America during the last century or the past year? Can liberalism be defined simply as whatever occurs in a nation-state designated liberal by those who decide to so designate it? By slicing the liberal cake, separating the several layers of liberal speculation, we can sample not only Locke's critique of later liberalism but liberalism's abiding critique of Locke. Even more important, we can position ourselves to more conscientiously inspect each of the theoretical models of liberalism in its own right and on its own merits.

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Entrepreneurship and Coastal Resource Management

JAMES R. RINEHART AND
JEFFREY J. POMPE

Many environmental problems along the coast are fundamentally no different from those in the interior parts of the country. Congestion, noise, and air and water pollution concern Dallas and Kansas City as much as they do Myrtle Beach or Miami. But beaches and estuaries are especially sensitive to economic development, and coastal areas of the United States are experiencing more rapid development than inland areas. The number of people living within fifty miles of the U.S. coastline rose from 61 million to 130 million between 1940 and 1988 (Long 1990, 6). More than 50 percent of Americans currently live within fifty miles of the shoreline, but the figure is projected to rise to 75 percent by 2010.[1] The number of nonresident tourists traveling to coastal areas has also grown substantially. Many, if not most, of our coastal environmental concerns stem from population growth pressure.

Poorly planned development in environmentally fragile coastal areas can cause shoreline erosion, polluted water, noisy and crowded surroundings, and extensive loss of trees, wetlands, fish and other wildlife. Population growth reduces land availability, encouraging developers to fill in marshes,

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1. Economic activity in the coastal zone is important to the national economy. In 1985 the National Coastal Research Institute estimated that 31.7 percent of GNP originated in the 413 coastal counties (Morris 1992, 39).

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destroying fish and animal habitats. The clearing of land destroys vegetation and trees, which increases runoff and ruins the overall natural beauty of the environment. Damage to streams, marshes, and marine life results from the use of pesticides, fertilizers, toxic chemicals, and other pollutants. Storm water runoff and effluent from sewage treatment facilities also cause trouble. The large amounts of nitrogen and phosphorous that pour daily into estuaries result in algae blooms that remove oxygen from the water, sometimes producing fish kills. Development also leads to the withdrawal of large amounts of water from aquifers, which causes salt infiltration and reduces water quality.

Shoreline erosion is a problem along much of the nation's coastline. The U.S. Army Corps of Engineers estimated in 1971 that 40 percent of the total shoreline of the lower forty-eight states was experiencing significant erosion (Morris 1992, 122). Wind and wave action associated with storms and high tides bring about natural erosion, but people effect much erosion, too. Damming rivers restricts the flow of eroded rock, which is the source of much of the sand on beaches. Destruction of sand dunes, sea oats, trees, and grasses removes natural protection, leaving the shore more vulnerable to ocean waves and currents, thus imperiling property and lives. Barrier islands, landforms that protect the mainland from the direct force of waves and storms, are especially susceptible to erosion. These dynamic islands are constantly eroding or accreting because of changing energy conditions (Leatherman 1988).

Erosion control techniques employing hard devices such as seawalls, groins, and jetties may actually accelerate beach loss rather than prevent it (Platt et al. 1992, 8). Another method of dealing with beach loss involves beach restoration via sand replenishment. This process, which trucks sand from inland pits or pumps sand from rivers or the ocean, is expensive and short-lived. Ocean City, Maryland, replaced nine miles of oceanfront sand at a cost of $51.2 million, only to see the bulk of it wash away during heavy storms in the fall of 1992. Most of the renourishment sand from a 1993 project at Folly Beach, South Carolina, that cost $12 million was washed away within two years ("Beach Programs" 1995). Similar stories abound.

Market Failure and Government Involvement in the Coastal Region

Many coastal resources exhibit characteristics of a common pool resource (CPR). This term refers to a resource for which exclusion of potential users is difficult and the use of which by one individual diminishes the amount available to others. When sufficient demand exists and access is not controlled, the result is the classic "tragedy of the commons" (Hardin 1968). Ocean

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fisheries, which tend to be overfished because users have little incentive to conserve the resource, exemplify this problem. Marshes, estuaries, beaches, and barrier islands all have aspects of CPRs and suffer from what some call market failure.

As estuaries and marshes are owned in common, no one prevents runoff from roadways and developed areas from polluting these critical waters. As development has expanded in coastal areas, increased pollution has reduced the productivity of these valuable resources. In Hilton Head, South Carolina, the recent closure of oyster beds signals such problems. In fact, a third of the 600,000 acres of South Carolina coastline has severe restrictions on oyster harvesting due to pollution (Fretwell 1995, A18). Nationally, the percentage of shellfish beds closed due to pollution has increased from 20 percent in 1965 to 37 percent in 1990 (Stipp 1991, B1).

Sand is another example of a CPR. Wider beaches provide recreational and protection benefits for property owners on and near the ocean. Sand constantly moves, however, and property owners build jetties and other constructions to trap the sand for their own uses. These techniques can deny sand to other areas, reducing benefits for their owners. Numerous controversies have developed over who has the right to sand.

Environmental problems in coastal areas certainly cry out for solutions. The question is: What is the most efficient way to solve the problems? Various methods, including government regulation,[2] government ownership, market incentives, and privatization might be utilized in an attempt to correct the negative effects associated with CPRs.

Until 1960, the government did little to regulate development in coastal areas. For instance, Michael Danielson (1995, 238) reports that in the initial phases of the development of Sea Pines on Hilton Head Island, South Carolina, in the late 1950s and early 1960s, public regulation was minimal and government brought few pressures to bear on developers to behave in an ecologically responsible manner. However, public pressure on the government to become involved intensified in the late 1960s. The National Flood Insurance Act (NFIA), passed in 1968, was intended to promote wise development of flood-prone areas by encouraging floodplain ordinances designed to reduce future flood losses.[3] Additional direction

2. The most common regulatory approach by government is the command-and-control, or standards, technique. Under the command-and-control approach, the government dictates the process to be followed or sets specific standards to be met. Alternatively, market incentives, such as taxes on undesirable activities, follow a carrot-and-stick approach to arrive at appropriate solutions.

3. With this act, governmental response also changed from engineering approaches, such as building concrete seawalls and rock revetments, to direct control of coastal development with various policy instruments (Platt 1994).

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came from the Coastal Zone Management Act of 1972, which provided funding for coastal states to plan, evaluate, and control shoreline erosion.[4] The Coastal Barrier Resources Act (CBRA) of 1982 (PL 97-348) provided a means of slowing development in the coastal zone by removing selected areas from government subsidized insurance and other financial assistance. The Coastal Barriers Improvement Act of 1990 (PL 101-591) further strengthened CBRA.

Also, state governments have initiated efforts to protect coastal areas through regulation and public ownership. In South Carolina, state regulation of coastal areas began with the Coastal Management Act of 1977. The state's regulatory powers were broadened by the 1988 Beachfront Management Act (SC 49-39-250) and revised again in 1990. Permits are now required before dredging or filling activities and dock, pier, and bridge construction can begin. Most other states with shorelines have enacted similar legislation.

Problems with the Government Approach

Recognizing market imperfections in the provision of environmental goods is one thing; improving matters through government regulation is another. A recent study of Oregon's coastal management program (Good 1994) finds that state policies designed to protect beaches are often ineffective. Although the state's policies give preference to hazard avoidance and nonstructural means of erosion control, the methods generally used are seawalls and revetments, which can damage neighboring properties. The study suggests revising the state's laws as a means of solving the problems.

The government does not necessarily do a better job than the free market in the provision of environmental amenities. First, it is difficult and costly for the government to measure the benefits and costs of its actions. Second, government bureaucrats generally are not liable for their actions. Government decision-makers do not bear the full weight of the costs associated with their actions: costs are diffused, and cost shifting is rampant. Third, government managers do not and cannot know the value of tradeoffs; that is, they cannot know the relative values that individuals place on nonmarket goods such as environmental quality versus other goods and services. Opinion surveys may help, but because respondents do not actually bear the cost associated with their answers, the results are questionable.[5]

4. Most states bordering oceans or the Great Lakes participate in this program. Since 1972, twenty-nine of thirty-five possible states have received funds.

5. It is especially difficult to estimate the value of nonmarket goods, such as environmental amenities. In addition to the contingent valuation approach, commonly used methods are the hedonic technique and the travel-cost approach. See Freeman (1993).

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Fourth, special interest groups, such as real estate developers, environmentalists, and investors, always attempt to influence government decision-makers to see things their way. Often government policy winds up being compatible with the lobbyists' wishes.[6] Finally, no competitive discipline exists in the government sector.

Unfortunately, in environmental matters government bureaucrats often make matters worse. For instance, government-subsidized flood insurance, provided by the 1968 NFIA, has been a significant stimulus to overbuilding in coastal areas (Miller 1975, 2). Government funded infrastructure subsidized or built by agencies such as the Environmental Protection Agency (EPA) and the Army Corps of Engineers entices developers and builders to become involved to a much greater degree than they would otherwise. For example, the EPA funds a large portion of the capital costs of public waste-water treatment works (Siffin 1981). Public roads, ramps, docks, and bridges produce overcrowding and heavy stress on the environment. Bridges financed by taxpayer dollars have been a key element in promoting the development of barrier islands. Such public works often become the catalyst for coastal development.

Government bureaucrats have an incentive to provide their constituents with what they want at little or no cost to them. According to the "State Beachfront Management Plan" produced by the South Carolina State Legislature, two of the Coastal Council's goals are to "improve public access" and "to develop new access sites" (South Carolina Beachfront Management Act 1990, 3). Charges to users are usually zero or nominal.[7] Yet the coastal areas are already highly developed and crowded. For their efforts, bureaucrats get bigger budgets, staffs, and authority. They do not face the market discipline of competition; nor can they assess their programs by using the measuring rod of profitability.

Markets do have their faults. Market imperfections such as externalites distort efficient outcomes. Also, information can be inaccurate, monopoly power may exist, and social and private discount rates may differ. Yet, when property rights are established, the market tends to produce better outcomes than the government.

6. Terry Anderson and P. J. Hill (1994) explain how entrepreneurs, rather than "a few farsighted, unselfish, and idealistic men and women," were instrumental in the formation of Yellowstone National Park. The owners of the Northern Pacific Railroad, hoping to capture rents from tourists traveling to the Park, provided the major impetus behind the establishment of Yellowstone, the United States's first national park, in 1872.

7. With market-provided goods, anyone willing and able to pay the real cost for such amenities would have access.

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Barrier Islands, Entrepreneurial Activity, and Environmental Goods

The absence of property rights gives rise to many of the environmental problems in coastal areas.[8] When ownership rights are not defined, users have little or no incentive to take into account the effects of their actions on the welfare of others. Users rush ahead—the greatest returns going to those who get there first—using more and more of the resource as long as private benefits exceed private costs. Fish grow scarce, water becomes polluted, beaches are crowded and denuded, and wetlands and marshes disappear. However, overuse of environmental resources in the absence of government involvement is not inevitable. With a system of well-defined property rights, market incentives can produce gains in efficiency.

For example, in examining property regimes in southeast Asia, Jeffrey S. Walters (1994) finds that when proprietorship rights are placed in the hands of local marine resource users rather than of government officials, coral reefs and mangrove forests are actually better managed. In another example, W. A. Fischel (1994) finds that without government intervention, private developers provide efficient levels of open space. An argument in favor of zoning is that the proper mix of competing land uses will not result when development is left to private parties. Fischel, updating a study by T. O. Crone (1983), shows that in the absence of government controls, Foster City, California, a private development, provided a proper mix of apartments and single-family homes that maximized the value of land.

Coastal barrier islands present a good example of the privatization solution. In this case, private developers are ahead of legislators and government regulators. Developers can own entire islands; for all practical purposes they own and control much of the natural resource base, including beaches and marshes. Consequently, market incentives encourage developers to factor in environmental values. For instance, if developers can capture the "rents" from a wider beach, they would be willing to expend resources to protect beach areas. As Terry L. Anderson and Donald R. Leal (1993) explain, "the subdivider who puts covenants in deeds that preserve open space, improve views, and generally harmonize development with the environment establishes property rights to these values and captures the value in higher asset prices" (21).

Owners benefit by putting resources to their highest and best use, and suffer by putting resources to a less ideal use. Competitively determined prices reflect the wishes of thousands upon thousands of buyers and the

8. In his classic 1960 article, "The Problem of Social Cost," Ronald Coase discusses how landowners can voluntarily solve externality problems when property rights are well defined and transaction costs are low.

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circumstances faced by thousands of producers. Prices measure the net effect of offers by producers and consumers regarding property uses. The government resource manager, seldom having access to competitively determined prices, cannot assess the relative values of goods and services and therefore suffers a serious disadvantage in making decisions about the development of coastal areas.

People had few environmental concerns in much of the coastal zone until coastal development began to accelerate after World War II. Developments built on barrier islands such as Galveston, Texas, Atlantic City, New Jersey, and Miami Beach, Florida, were notable exceptions. In recent years, however, development has increased and concerns over deterioration of the coastal environment have mounted. Simultaneously, though, incentives have arisen for entrepreneurs to produce and market clean water and marshes, wide beaches, low population density, wildlife, and trees. As expressed by Joseph C. Bast and others (1994), "Rising efficiency and prosperity clearly have led to greater public concern for things that once were regarded as unimportant or unaffordable: clean air, clear water, and preservation of wilderness areas, among them" (198).

Figure 1 illustrates the response of developers to the changing market conditions in coastal areas. Increasing land values, resulting from growing demand for coastal property,[9] coupled with rising consumer demand for environmental quality, provided the incentive for developers to protect coastal resources. The movement toward environmental protection, which continues today, sprang from improved scientific knowledge, higher standards of living, and entrepreneurial responses to buyers' demands. Evolving government regulation also has had some impact, but more often than not legislation lags behind market initiatives. Growing affluence and movement along an environmental "learning curve" are driving these markets, and improvements would be even more pronounced were it not for government programs that subsidize bad environmental decisions.[10]

A brief tour through South Carolina island developments such as Sea Pines, Seabrook, Dewees, and Kiawah clearly shows that recreational and residential users of resources have succeeded in outbidding alternative users. Charles Fraser, owner and developer of Sea Pines on Hilton Head Island, convinced his father, a logger who bought the land originally for its timber, to leave the tall pines along the coast, to capitalize on their greater value as a resort amenity (Danielson 1995). Environmentally conscious consumers

9. For example, on peak days 75,000 people populate Hilton Head Island, tripling the year-round population. Twenty-five years ago, 3,000 people resided on the island.

10. Building in coastal areas increased significantly as a result of the 1968 NFIA, which encouraged development by providing subsidized flood insurance.

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Figure 1. Response of Coastal Developers to the Demand for Environmental Quality

Time	Property Buyers	Property Developers	Environmental Standards
Period I Before 1960	Little environmental knowledge or interest Disposable personal per capita income, 1960: $7,264	Piecemeal development Small lots Streets horizontal and perpendicular to ocean Open communities Building close to sea Seawalls and rock revetments	Sand dune destruction Crowded conditions Polluted water Wetland destruction Commercial atmosphere (e.g., Myrtle Beach)
Period II 1960–1980	Growing environmental awareness and appreciation Disposable personal per capita income, 1970: $9,875	Community development Larger lots Protection of trees and wildlife Buildings set back from sea Improved building standards	Less crowding Natural beauty protected (e.g., Sea Pines, Seabrook)
Period III 1980–Present	Keen awareness of environmental amenities Environmental shopping Disposable personal per capita income, 1980: $12,005 1990: $14,101	Environmental covenants New technologies Compatibility between development and environment	Control of water pollution Beach nourishment and protection Wildlife and vegetation protection (e.g., Dewees Island)

Note: Average United States income in 1987 dollars.

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have often outbid loggers because they place a higher value on the forests for recreational and residential use than do homebuilders.[11] In contrast, many public beaches, such as Myrtle Beach, show just the opposite outcome.

When coastal development began to accelerate a few decades ago, with very few exceptions little thought was given to the value of open space, harmony with nature, or the stabilization value of sand dunes and vegetation. There were few crowded areas and as a result few environmental concerns. Developers often built too close to the ocean; used "hard" erosion-control techniques, such as seawalls, rock revetments, and bulkheads; cut trees; and filled in marshes. However, over time, developers gained a better understanding of the coastal system and responded to the growing appreciation of and demand for environmental goods.

Another beneficial aspect of market-driven environmental decision making is that the provision of environmental goods pushes up the cost of coastal development, encouraging a movement away from the coastal zone as potential residents opt for cheaper land farther from the shore. On the coast, higher prices encourage efficiency, conservation, and ultimately long-term protection. Moreover, developers have incentives to discover and employ new technologies in environmental protection.

Developers also compete with one another to offer more and more environmental goods to their customers. According to Fred Foldvary (1994), "consumers reveal their demands for collective goods through a choice of community, and competition among communities ensures that local collective goods are provided at a minimum cost" (71).

Private Development on Barrier Islands: Specific Cases

Along the South Carolina coast, many private developments on barrier islands demonstrate the entrepreneurial process at work. Because the developers own most of the natural resources on the islands, they internalize the costs associated with decisions regarding resource use. They promote and

11. A recent case in South Carolina shows how private organizations can also protect valuable resources. A logging company applied to the South Carolina Coastal Council for a permit to construct a bridge to Sandy Island, not far from Myrtle Beach, in order to cut cypress trees (Paulsen 1995, 1A). Opposition arose immediately. Others preferred that the island's unique cultural history, along with wildlife, including the endangered red-cockaded woodpecker, be preserved, and suspected that the timber objective was only a ruse to develop the island. A political decision was made to deny the permit and a compromise solution led to purchase of the land by the Nature Conservancy, a private corporation that buys sensitive and natural areas for conservation purposes. The Nature Conservancy owns more than 1,300 nature preserves (Endicott 1993, 17).

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market environmental amenities without the requirement of government oversight and usually with protection that exceeds minimum government standards. These developments have security gates that restrict entry to property owners and their guests. Deed covenants regulate and control building and future development to ensure environmental protection. The enforced agreements create security for property owners and, unlike governmental regulations, are not subject to changing political fashions. We consider four representative examples along the South Carolina coast.

The Sea Pines development covers 3,480 acres of beachfront, forests, lagoons, and sea marshes on the southern tip of Hilton Head Island. Parks, woodlands, golf courses, and tennis courts occupy 2,400 acres. Sea Pines illustrates the "learning curve." Although Hilton Head Island had been bought for the Hilton Head Company by Fred Hack and Joseph Fraser in 1949 for its timber, Joseph's son Charles saw the island's resort potential. He began the island's resort development phase in 1957 and became a pioneer in producing and marketing environmental goods.

The developer used natural materials in construction; laid out lots for excellent views; opened houses to the outside; protected trees, wildlife, and natural vegetation; and wound roads through nicely landscaped properties. According to Michael N. Danielson (1995), "Sea Pines became a training ground for developers, architects, landscape designers, and others who later took their lessons to resorts and new communities across the nation" (34). Fraser introduced strict deed covenants regulating both the developer and individual property owners, which have proven durable and enforceable. In 1985 a court agreed that the covenants legally bind the property owners (Danielson 1995, 287).

Seabrook Island is a beach-ridge barrier island twenty-three miles south of Charleston, South Carolina, and directly south of Kiawah, a sister barrier island. It contains approximately 2,200 acres of land, 3.5 miles of private beach, and it is bordered by three river systems: the North Edisto, the Bohicket, and the Kiawah. Until 1970, the island was undeveloped and used primarily by the Episcopal Diocese of South Carolina as a camp and conference center. The Seabrook Development Corporation, a private company, acquired the land in 1970 and commenced development. Seabrook now has about 2,350 privately owned properties, consisting of 495 single-family homes, 1,003 villas, and 852 undeveloped lots.

Most lots on Seabrook are heavily wooded and attractively spaced along winding streets. Houses are constructed with as little disruption as possible to natural vegetation. The island has a variety of freshwater lakes; numerous marshes, lagoons, and creeks; and abundant wildlife. It has a noncommercial atmosphere and forests of live oaks, pines, palms, and magnolias. Traditional commercial establishments such as grocery stores, banks, service stations,

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and department stores, as well as churches and schools, are located outside the entrance gates.

Kiawah Island, next to Seabrook Island, is a 10,000-acre barrier island with ten miles of beachfront. Until the early 1900s, it was devoted to indigo and cotton production. In 1952, C. C. Royal of Aiken bought the island for its timber. In 1974 it passed to a buyer with plans to develop it as a resort. With the aid of Charles Fraser and the Sea Pines Company, a plan was devised to develop the island while preserving its natural beauty. Deer, fox, bobcat, waterfowl, and loggerhead turtles still inhabit the island.

Kiawah's gatehouse limits public access. The Kiawah developers spent $1.3 million on a sixteen-month environmental survey before development commenced to determine how to minimize the adverse effects of development on the ecosystem. Ecologists, archaeologists, biologists, historians, land planners, architects, and other scientists and professionals joined in drawing up the Master Land Use Plan. After observing Seabrook's problems with beach erosion, the Kiawah developers also increased housing setback requirements.

Dewees Island is a privately owned barrier island twelve miles northeast of Charleston, South Carolina. Presently being developed by Island Preservation Partnership, the island has 1,206 acres well endowed with trees, water, marshes, and wildlife. To hold down population density and preserve natural habitat, the developer has allowed only 137 single-family houses, occupying 35 percent of the island. Homesites are placed at a greater distance from the beach than required by state guidelines. No wetlands will be destroyed in development of the island, and 350 acres will serve as a permanent wildlife preserve. No commercial facilities are planned for the island, and ferry service provides the only access to it. Only golf carts or electric-powered cars may drive on the island. All roads have a natural sand base, and concrete driveways and walkways are prohibited in order to reduce water runoff. Fencing; inorganic fertilizers and pesticides; and manicured lawns, hedges, and shrubs are disallowed.

Although we consider only a few examples here, many similar cases exist along the South Carolina coastline. Most are being developed with environmental concerns in the forefront. Resort developments near the non-barrier-island coast are also following this path. We have identified more than thirty such developments on or near South Carolina barrier islands.[12]

12. These developments include Bray's Island, Spring Island, Jeremy Cay, Sun City Hilton Head, Rose Hill Plantation, New Point, Fripp Island, Dataw Island, Callawassie, Daniels Island, Dunes West, Wild Dunes Resort, Sea Pines, Ocean Side Village, Fairfield Ocean Ridge, Ocean Creek, Kingston Plantation, Debordieu, Wachesaw Plantation, Wexford Plantation, Tide Pointe, Shipyard Plantation, Seabrook of Hilton Head, Palmetto Hall Planation, Palmetto Dunes, Moss Creek Plantation, Melrose Club, Long Cove Club, Hilton Head Plantation, and Haig Point.

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Another advantage of privately owned developments is that they internalize the costs of maintaining beaches. For barrier islands that provide no public access, such as Seabrook and Dewees, federal and state funds are not available for beach restoration, and property owners must pay all costs.[13] In Myrtle Beach, South Carolina, on the other hand, where beaches are public, federal and state taxpayers pay a significant portion of beach protection costs. The federal government is financing 65 percent of a current multi-million-dollar beach nourishment project at Myrtle Beach, with the state and local governments covering the remainder. Public beaches contribute to state tourism income and provide recreational benefits for the public, justifying some governmental financing. However, much of the recreational and protection benefit of beach nourishment accrues to property owners on or near the beach.[14]

Factors Affecting the Success of Privatization Solutions

Sea Pines, Dewees, Kiawah, and Seabrook Islands illustrate the evolution of barrier island development. Sea Pines, begun nearly forty years ago, was one of the first developments to market environmental amenities; Dewees represents a more recent trend toward higher environmental standards. Charles Fraser set the tone for this type of environmental marketing on Hilton Head Island in the 1960s. Because Fraser and his partner, Fred Hack, disagreed over the development plan for the island, they divided it and each followed his own path. Hack followed the traditional path of strip development, selling one lot at a time without an overall plan. Fraser, in contrast, thought in terms of the community as a whole, including protection of the coastal ecosystem. Fraser's environmental approach was so financially successful that his ex-partner decided to emulate Fraser and his Sea Pines development (Danielson 1995). Most island developments since that time, especially along the southeastern coast, have copied the Fraser model.

Many interior developments in the United States are also following

13. Seabrook Island has spent over $3 million on seawalls and revetments (mostly by a few individual property owners) and about $2.5 million on beach nourishment. A project to relocate Captain Sam's Inlet, in an attempt to reduce sand loss, was recently completed at a cost of some $600,000.

14. By examining the monetary connection between beach width and property values, with a hedonic model, Pompe and Rinehart (1994) find that for every additional foot of beach width, $525 is added to property values for oceanfront homes and $234 for properties one-third mile from the beach. These calculations use the mean values of housing for location on the oceanfront (a sale price of $170,430 and a square footage of 2,450) and one-third mile from the beach (a sale price of $75,000 and 1,932 square feet). Clearly, there is a monetary payoff for beach protection and restoration.

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such a course. Eagle Rock Reserve in Montana, Farmview in Pennsylvania, and Preserve at Hunters Lake in Wisconsin are notable examples of developers' recognizing and capitalizing on the demand for environmental quality (Fakis 1995). Across the country, thousands of such developments are built on lakes, rivers, and mountains with standards that run the gamut from minimal environmental to strict Dewees-type.

By not building as close to the ocean as possible and by protecting shoreline vegetation, property values for the community are enhanced. Although developers find protecting such environmental resources costly, they will voluntarily engage in such activity when they expect to receive private net gains. If property buyers value environmental protection and the developer can capture higher rents, a private developer will protect the environment without government coercion. Our research indicates that private developers are providing environmental amenities beyond the requirements of government regulations. Certain conditions must prevail, however, for such results to occur.

The first condition is that movement toward privatization of barrier islands is closely related to changes in land values. As the value of a CPR rises, precision in the definition of property rights becomes more valuable. The enhanced resource value attracts additional claimants, increasing the potential losses from the CPR as well as the potential returns from better-defined property rights (Libecap 1986, 231). For example, the discovery of rich gold and silver deposits in the American West after 1848 led to negotiation of property rights on previously unclaimed land (Umbeck 1977). Similarly, privatization of coastal barrier islands followed increasing land values, which were driven by growing demand for coastal property. Private developments became more viable because poorly defined property rights meant lower rates of return for developers.

Second, successful developments consist of tracts of land large enough to allow effective control over conditions affecting environmental quality. Small-scale developers have less incentive to provide environmental amenities because of transaction costs and the limited ability to gain from appreciation in land values due to enhanced environmental standards. Small developers bear the costs of environmental protection but the benefits spill over onto adjoining properties. Avoiding piecemeal development, large-scale developers will supply environmental amenities, expecting to capture the benefits through higher land values.[15] The private developer has an incentive to use resources to determine how best to develop the area while

15. Capital markets that permit large-scale financing are important. A lack of capital or financing might have contributed to piecemeal development in the early years of barrier-island development.

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minimizing the negative effect on the natural resource base. With many small parcels of land, the free rider problem and the higher costs of controlling externalities through negotiation discourage environmental planning.

Third, the private solution will be more successful where the boundaries of the development are clearly defined and access is more easily controlled. Under these conditions, property owners enjoy the benefits of the CPR and can exclude others. Furthermore, property owners can protect the development from adjacent incompatible uses. Geographical characteristics that limit encroachment, such as a mountain range (Dennen 1976), can substantially reduce costs of exclusion. Dewees Island has the advantage of being an island without a bridge; Seabrook has a single access gate. Although a barrier island has an obvious advantage, interior developments can create similar conditions by using natural barriers such as water and mountains, and manmade barriers such as fences and buffer zones. Because developments such as Sea Pines, Dewees, Seabrook, and Kiawah are self-contained and controlled by a single entity, it is more likely that the developer will capture the benefits of increased land values. The more difficult and costly exclusion becomes and the lower the benefits of exclusion, the less successful private solutions are.

Fourth, environmental goods flow more naturally from privatization when the costs of contracting and enforcing collective decisions are low. For the coastal communities examined here, such costs are minimal because new property owners buying into the community have tastes similar to those of residents already there; hence, a general consensus on how to order the development is more easily reached. Contracting costs are also reduced if restrictive covenants are already in place.

Fifth, privatization works better if buyers are well informed about environmental amenities and quality. Some of the attributes of environmental protection may not be immediately visible to potential buyers, and therefore developers must "spell out" the positive aspects of the development. An examination of the sales pamphlets from developments of this type confirms that developers take pains to inform potential buyers of the environmental amenities available.

Sixth, success is inversely related to the number of property owners, as the costs of contracting and enforcing regulations vary directly with the number of property owners. Most barrier-island communities place limits on the number of members. Barrier islands are not large, and their residents prefer low-density housing.

Although no island can be developed without some negative environmental impacts, islands such as those described here stand in sharp contrast to earlier beach developments such as Myrtle Beach, where trees are cut,

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land rearranged, and plants and animals removed. But if development is to occur, the market approach can produce environmental amenities without the coercive force of government.[16]

Conclusion

Private developers are making significant efforts to protect environmental resources that add to the net collective value of the community. These efforts are simply profit-maximizing behavior by developers responding to property owners' growing demands to protect the environment and preserve the natural landscape. Large-scale developers are more likely than small-scale developers to protect common pool resources because the larger developers are better able to capture the benefits of their actions. This difference is especially evident in coastal areas.

But even in coastal areas, private development cannot solve all environmental problems. For some common property resources, such as fisheries, where access is not controlled and property rights are not well defined, environmental problems continue. Moreover, property rights do not extend beyond the island's environment.[17] For example, upstream dams deprive coastal beaches of sand, and pollution runoff from farm and urban developments damages coastal estuaries. Furthermore, developers do not operate without making mistakes, and in some cases they actually ignore environmental concerns—for instance, it seems clear in hindsight that some buildings were constructed too close to the ocean on Seabrook Island. Utopias rarely, if ever, exist. We can only choose the course of action that promises the best feasible outcome. For coastal development, the market demonstrates significant compatibility between entrepreneurial activity and environmental concern.

Studies of cases such as Sea Pines, Seabrook, Kiawah, and Dewees are useful in determining how successful this approach may be in the long term. For a community of property owners with similar tastes and a strong system of protective covenants, our research suggests that the potential for long-term and widespread success is substantial.

Human beings have a desire for environmental goods such as scenic views, clear skies, clean water, space, and a feeling of harmony with nature.

16. Private solutions may become more valuable, as government regulation is incurring more cost for "takings." The David Lucas case, in which a property owner was awarded $1.5 million when government land-use controls deprived him of the economic value of his two oceanfront lots, is representative of increasing challenges to governmental regulation (Rinehart and Pompe 1995).

17. One might expect to see more and more cooperation between developers in protecting common property such as estuaries or rivers that are shared.

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Community developers, such as those on barrier islands, package environmental amenities along with other attractions and receive compensation from property prices in exactly the same way that Wal-Mart profits by selling tennis rackets, golf clubs, electronic equipment, and clothing. This process is under way in many other areas of the country. As consumer affluence and environmental knowledge grow, this movement will accelerate.

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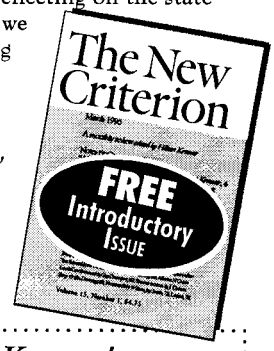

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Regime Uncertainty

Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War

ROBERT HIGGS

"There have been endless analyses of individual economic policies; there has been little attention to changes in policy regimes."

—PETER TEMIN (1989, 134)

The Great Depression is one of the most studied topics in American economic history, and one about which scholars remain in serious disagreement. Perhaps the topic is too big, and its study would be more fruitful if it were broken down into subtopics. Thus, one might consider separately the causes of the Great Contraction, the unparalleled macroeconomic collapse between 1929 and 1933; the Great Duration, the twelve successive years during which the economy operated substantially below its capacity to produce; and the Great Escape, generally understood to have been brought about, directly or indirectly, by American participa-

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tion in World War II. The Great Contraction has received the most attention, and its investigators show no signs of reaching a consensus. The Great Duration has received somewhat less study, though still a good deal, and the range of views among students of this aspect of the Great Depression is perhaps slightly narrower. Regarding the Great Escape, there seemed until recently to be hardly any disagreement.

In a paper published in 1992, however, I called into question the prevailing understanding of the Great Escape by challenging the reality of "wartime prosperity" during World War II. In the present paper I extend that argument, attempting to shed new light on the Great Duration and the Great Escape. For present purposes I make no attempt to explain the Great Contraction, merely recognizing that it occurred and that it had certain aspects, including most notably a collapse of private investment.

In the earlier paper I argued that a return to genuine prosperity—the true Great Escape—occurred only after World War II ended, not during the war as suggested by the idea of wartime prosperity. During the war years the economy operated essentially as a command system, and as a result the normal measures of macroeconomic performance (e.g., gross domestic product, the price level, and the rate of unemployment) were either conceptually or statistically incomparable with corresponding measures before and after the period subject to the wartime distortions.

In my understanding, one simply cannot speak with confidence about such matters as, for example, the rate of growth of real GDP or the rate of inflation from year to year during the period from 1941 to 1947. From 1941 through 1945, vast quantities of munitions were produced along with a restricted set of price-controlled civilian goods, some of which were physically rationed (Krug 1945; Harris 1945). Comprehensive price controls, gradually imposed in 1941 and 1942, were not abandoned for good until late in 1946 (U.S. Bureau of the Budget 1946, 235–73; Rockoff 1984, 85–176). Because the actual wartime prices could not even have approximated the prices of an economy in full competitive equilibrium, they cannot serve as appropriate weights for the construction of a meaningful national product aggregate. Unemployment virtually disappeared as conscription, directly and indirectly, pulled more than 12 million potential workers into the armed forces and millions of others into draft-exempt employments, but under the prevailing conditions the disappearance of unemployment can hardly be interpreted as a valid index of economic prosperity (Higgs 1992, 42–44).

Given the institutional discontinuity created by the wartime command economy, our understanding of the period from the late 1930s to the late 1940s, so far as it depends on the usual macroeconomic measures, must necessarily contain a huge gap. To insist on using the standard measures notwithstanding the complete evaporation of their institutional underpin-

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nings would mislead us far more than frankly facing up to the fact that, for the war years, the usual measures have no real substance. One can compute them, of course, by making a great many assumptions and swallowing hard. But the wartime numbers that look so solid and comparable sitting there in the middle of a long time series are essentially arbitrary.

What we can say with confidence is that as of 1940, the economy had not yet recovered fully from the Great Depression; when the meaningfulness of the macroeconomic indexes began to fade in the second half of 1940, the Great Escape had not yet been completed. For the next five years the war-command system foreclosed conventional comparable measurements of the performance of the macroeconomy. Then, from mid-1945 until perhaps as late as the first quarter of 1947, the demobilization, reconversion, and decontrol of the economy continued to muddy the macroeconomic waters. Finally, certainly by 1948 and probably by 1947, economic conditions were sufficiently free of wartime distortions and their postwar carryovers that we can confidently make comparisons with, say, 1940 or earlier years. What we see then, of course, is that the postwar economy enjoyed a high degree of prosperity, whether judged by its low unemployment rate or by its high real GDP relative to the corresponding index for any prewar year.

We know, then, that sometime during the period of 1941 to 1947, the economy made its Great Escape. In my 1992 paper I argued that the war years themselves witnessed a deterioration of economic well-being in the sense of consumer satisfaction either present (via private consumption) or prospective (via accumulation of capital with the potential to enhance future civilian consumption) and that the Great Escape actually occurred during the demobilization period, especially during its first year, when most of the wartime controls were eliminated and most of the resources used for munitions production and military activities were returned to civilian production.

In light of the foregoing observations, we may justifiably adopt the following chronology: Great Depression, 1930 to 1940; transition to the war economy, 1940 to 1941; war-command economy, 1942 to 1945; demobilization, reconversion, and decontrol (the true Great Escape), 1945 to 1946; postwar prosperity, 1946 and beyond.

I shall argue here that the economy remained in the depression as late as 1940 because private investment had never recovered sufficiently after its collapse during the Great Contraction. During the war, private investment fell to much lower levels, and the federal government itself became the chief investor, directing investment into building up the nation's capacity to produce munitions. After the war ended, private investment, for the first time since the 1920s, rose to and remained at levels sufficient to create a prosperous and normally growing economy.

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I shall argue further that the insufficiency of private investment from 1935 through 1940 reflected a pervasive uncertainty among investors about the security of their property rights in their capital and its prospective returns. This uncertainty arose, especially though not exclusively, from the character of federal government actions and the nature of the Roosevelt administration during the so-called Second New Deal from 1935 to 1940. Starting in 1940 the makeup of FDR's administration changed substantially as probusiness men began to replace dedicated New Dealers in many positions, including most of the offices of high authority in the war-command economy. Congressional changes in the elections from 1938 onward reinforced the movement away from the New Deal, strengthening the so-called Conservative Coalition. From 1941 through 1945, however, the less hostile character of the administration expressed itself in decisions about how to manage the war-command economy; therefore, with private investment replaced by direct government investment, the diminished fears of investors could not give rise to a revival of private investment spending. In 1945 the death of Roosevelt and the succession of Harry S Truman and his administration completed the shift from a political regime investors perceived as full of uncertainty to one in which they felt much more confident about the security of their private property rights. Sufficiently sanguine for the first time since 1929, and finally freed from government restraints on private investment for civilian purposes, investors set in motion the postwar investment boom that powered the economy's return to sustained prosperity notwithstanding the drastic reduction of federal government spending from its extraordinarily elevated wartime levels.

What Happened to Investment?

As economic historian Alexander Field (1992) has written, "no coherent account of the depth and duration of the Depression can ignore the causes of fluctuations in investment spending" (786). Figure 1 illustrates both real gross domestic product (GDP) and real gross private investment (GPI) from 1929 to 1950.[1] As the figure shows, both real GDP (bars, left-side scale) and real GPI (thin line, right-side scale) plunged from 1929 to a trough in either 1932 or 1933, the former by 29 percent, the latter by 84 percent. Both variables recovered rapidly after 1933: by 1937, real national product had

1. As indicated earlier, the data plotted for 1941–1946, especially those for 1942 to 1945, are unsuitable for analysis. I show them in this and the succeeding figure to reveal what would be at stake if one were to proceed in a conventional manner, treating these observations as comparable with the preceding and succeeding ones. The data source is the U.S. Council of Economic Advisers (1995, 406).

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regained 96 percent of its loss in the Great Contraction, and investment had recouped 64 percent of its loss. The "Roosevelt recession" of 1937 to 1938 cut short the recovery: real GDP fell by 4 percent in 1938, gross investment by 34 percent. Real national product recovered quickly after 1938, and in 1939 it finally exceeded its previous peak value of 1929. (Of course, this level of GDP was no longer a "full-employment" level; the rate of unemployment [Darby variant] was 11.3 percent.)[2] Investment recovered more slowly. Even in 1941, when stimulus from the defense mobilization had become substantial, real GPI had not quite regained its 1929 level. For what the data are worth, they show that private investment plunged to very low levels during the years the United States was a declared belligerent. After the war ended, however, real GPI exceeded its previous (1929) peak substantially; it stood 23 percent higher even during the recession year 1949. Both real GDP and real GPI data show that during the period of 1946 to 1950, the Great Escape had been made.

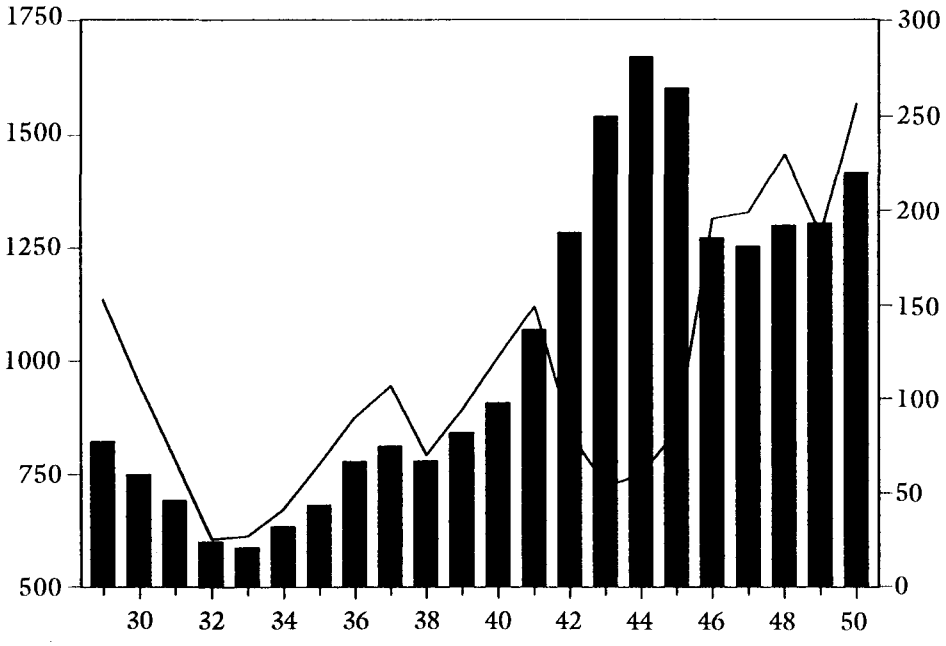

Figure 1. Gross Domestic Product (billions of 1987$) and Gross Private Investment (billions of 1987$), 1929–1950

2. Darby's measure of unemployment counts persons employed in government emergency work-relief programs as employed, whereas the official measure of unemployment counts these persons as unemployed. See Darby (1976).

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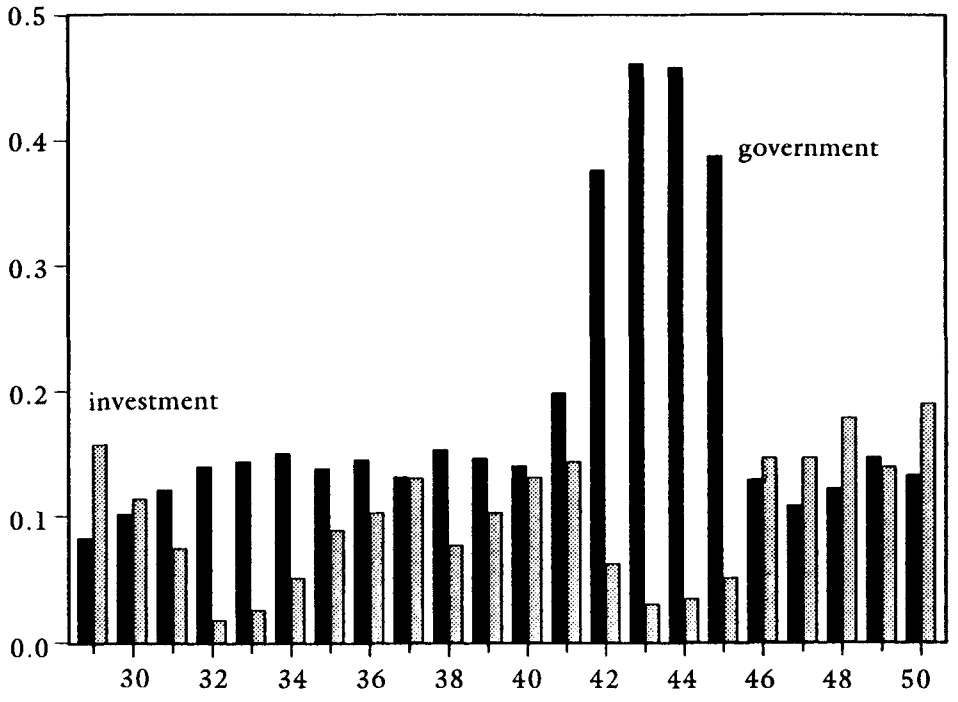

Figure 2. Government Purchases (Current$) and Gross Private Investment (Current$) Relative to Gross Domestic Product (Current$), 1929–1950

Figure 2 provides an alternative depiction of the course of private investment spending (along with government spending, for comparison).[3] Using current-dollar investment as a proportion of current-dollar GDP, this approach avoids the distortions potentially affecting data shown in figure 1 due to the index-number problem or measurement errors in the deflators. As the figure shows, gross private investment (gray bars) plunged from almost 16 percent of GDP in 1929 to less than 2 percent in 1932; recovered to 13 percent in 1937 before falling again in the recession of 1938; and as late as 1941 stood at only 14 percent. During the war years, private investment ratios ranged from 3 to 6 percent. From 1946 through 1950 they ranged from 14 to 19 percent and averaged 16 percent—the same as in 1929.

One appreciates even better the deficiency of investment in the 1930s by considering net, rather than gross, investment. From 1929 to 1941 the capital consumption allowance amounted to 8 to 10 percent of GNP (U.S. Bureau of the Census 1975, 234, Series F144–45). In 1929, when gross private investment was $16.2 billion, net investment was $8.3 billion. Net investment fell precipitously to $2.3 billion in 1930 and then became nega-

3. The data source is the U.S. Council of Economic Advisers (1970, 177).

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tive during each of the following five years. In the period of 1931 to 1935, net investment totaled *minus* $18.3 billion. After reviving to positive levels in 1936 and 1937, net investment again fell into the negative range in 1938 (–$0.8 billion) before resuming its recovery. For the eleven-year period of 1930 to 1940, net private investment totaled *minus* $3.1 billion. Only in 1941 did net private investment ($9.7 billion) exceed the 1929 amount.[4]

The data leave little doubt. During the 1930s, private investment remained at depths never plumbed in any other decade for which data exist. Stimulus from the defense buildup increased it in 1940 and 1941; then wartime controls curtailed it from 1942 through 1945. Only in 1946 and the following years did private investment reach and remain at levels consistent with a prosperous and growing economy.

A Hypothesis about Why Investment Remained Depressed

Eleven years is an extraordinarily long time for investment to remain drastically subpar, so it is plausible that the long doldrums had some extraordinary cause—in any event, that is the idea explored here. Nothing in this investigation is meant to test, refute, or otherwise shed light directly on any of the many macroeconomic models that have been advanced over the years to explain business fluctuations in general or the Great Depression in particular. Rather, my inquiry may be viewed as complementary to any analysis that holds private investment's failure to revive fully to have been at least partially responsible for the Great Duration.

Many such explanations have been advanced. For example, economist Lester Chandler (1970) concluded in a widely cited book: "The failure of the New Deal to bring about an adequate revival of private investment is the key to its failure to achieve a complete and self-sustaining recovery of output and employment" (132). In very similar language, economic historian Peter Fearon (1987) observed: "Perhaps the New Deal's greatest failure lay in its inability to generate the revival in private investment that would have led to greater output and more jobs" (208). Obviously, regardless of what else might have been happening, no one could expect a resumption of prosperity when the economy—its labor force continuing to grow—went more than a decade without any increase of the capital stock.

My hypothesis supplements my previous argument that the Great Escape did not occur until after the end of the war. Indeed, the argument I shall make ties together events during the latter half of the depression and

4. The 1929 benchmark was quite representative of the latter 1920s: gross private investment averaged $15.7 billion per year from 1925 through 1929 (Swanson and Williamson 1972, 55).

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events during the war years to arrive at an explanation for why investment finally recovered fully only after VJ-Day, creating sustained prosperity and normal economic growth thereafter.

The hypothesis is a variant of an old idea: the willingness of businesspeople to invest requires a sufficiently healthy state of "business confidence," and the Second New Deal ravaged the requisite confidence (Krooss 1970, 199–201; Collins 1981, 23–52; Fearon 1987, 209–11; Brinkley 1995, 31–34). Of course, one difficulty with the hypothesis is that business confidence is a vague notion and one for which no conventional empirical measure has been developed. I shall try to narrow the concept somewhat and to show that one can shed empirical light on it by using the findings of systematic opinion surveys and evidence on the behavior of investors in the financial markets.

To narrow the concept of business confidence, I adopt the interpretation that businesspeople may be more or less "uncertain about the regime," by which I mean, distressed that investors' private property rights in their capital and the income it yields will be attenuated further by government action. Such attenuations can arise from many sources, ranging from simple tax-rate increases to the imposition of new kinds of taxes to outright confiscation of private property. Many intermediate threats can arise from various sorts of regulation, for instance, of securities markets, labor markets, and product markets. In any event, the security of private property rights rests not so much on the letter of the law as on the character of the government that enforces, or threatens, presumptive rights. "What does provide some degree of protection," notes Andrzej Rapaczynski (1996),

> is the political system, together with the economic pressure groups that ensure that the state does not go "too far" in interfering with the owner's control over assets. This politically determined thin line may be understood as the real definition of property rights conferred by the state, as distinct from the somewhat fictitious legal notion of property rights. How broadly property rights are defined in this real sense and how effective states' (largely nonlegal) commitment is to their security is a more serious problem than the issue of legal protections against the more traditional form of takings. (93)

As Lee J. Alston, Thráinn Eggertsson, and Douglass C. North (1996) have recently observed, echoing venerable wisdom, "In an economy where entrepreneurship is decentralized, economic actors will hold back on long-term investments unless the state makes credible commitments to honor its contracts and respect individual ownership rights" (4).

It would be easy to dismiss an investigation of, first, increased regime

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uncertainty as a cause of the investment drought that contributed to the Great Duration and, second, reduced regime uncertainty as a cause of the investment surge that propelled the Great Escape. In retrospect it seems hyperbolic to put much weight on the fears of investors in the latter half of the 1930s that the regime might soon undergo changes that would seriously jeopardize their private property rights—after all, we know quite well that the U.S. economy did not fall into outright fascism, socialism, or some other variant of government takeover. Roosevelt, we now know, never became a dictator along the lines of his contemporaries Stalin, Mussolini, and Hitler; the New Dealers were no Brown Shirts. But what seems so obvious to us in retrospect had a quite different appearance to many contemporaries (Flynn 1944, 166–258; Roose 1954, 209–31, 250; Krooss 1970, 159–209; Garraty 1973). No one knew for sure what the future held. According to economic historian Herman Krooss (1970), "Business leaders sincerely believed that the government was in evil hands...and preparing the way for socialism, communism, or some other variety of anti-Americanism" (197). As I shall demonstrate shortly, the possibility that the United States might undergo an extreme regime shift seemed to many investors in the late 1930s and early 1940s not only possible but likely.

In recent years economists have developed a number of models incorporating uncertainty more explicitly into the analysis of investment. This new approach recognizes that much investment not only entails irreversibilities or sunk costs, but can be delayed. Given these attributes, economist Robert Pindyck (1991) reports, "investment spending on an aggregate level may be highly sensitive to risk in various forms...[including] uncertainty over future tax and regulatory policy." One implication is that "a major cost of political and economic instability may be its depressing effect on investment" (1141; see also 1110–12). As Pindyck notes, "[m]ost econometric models of aggregate economic activity ignore the role of risk, or deal with it only implicitly. A more explicit treatment of risk may help to better explain economic fluctuations, and especially investment spending" (1142). Although I make no attempt here to estimate an econometric model incorporating uncertainty, the approach of my analysis is, in its substance, compatible with the approach of the new investment models.

At the same time, it is also compatible with the views expressed by many economists of an earlier generation, including Joseph A. Schumpeter (1939), who observed "how unrealistic any theory of investment opportunity is which leaves the political factor out of account" (1043), and Kenneth D. Roose (1954), who argued that the relations of business and government during the latter half of the 1930s were "infected with such hatreds and distrusts" that "the risks and uncertainties of investment decision were seriously increased" (224). Roose concluded that "the uncertainties created by

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government policies as to the nature of the economic system which was evolving undoubtedly reduced the number of long-term investment commitments" (232). In their monumental monetary history, Milton Friedman and Anna Schwartz (1963) endorsed Roose's assessment (495–96).

The Sources of Regime Uncertainty

Despite the encroachments of taxation, regulation, and other government action at all levels that had been occurring for half a century or more (Hughes 1991, 92–135; Higgs 1987, 77–167; Keller 1990), as late as 1932 businesspeople in general and investors in particular remained—certainly in retrospect—relatively free of major threats to the prevailing regime of private property rights.

Then, during the next two presidential terms, the Roosevelt administration proposed and Congress enacted an unparalleled outpouring of laws that significantly attenuated private property rights (Leuchtenburg 1963; Badger 1989). State legislatures followed suit with their "little New Deals" (Leuchtenburg 1963, 198–88; Badger 1989, 283–84) and relentless tax increases (Brownlee 1996, 83, 85). Table 1 lists only some of the more important federal enactments diminishing or threatening private property rights. As financial economist Benjamin Anderson ([1949] 1979), an astute contemporary observer, remarked, "The impact of these multitudinous measures—industrial, agricultural, financial, monetary, and other—upon a bewildered industrial and financial community was extraordinarily heavy" (357).

Anderson was hardly the only contemporary economist convinced that the New Deal measures caused the Great Duration. Schumpeter, one of the world's leading authorities on business cycles, wrote in the first edition of his *Capitalism, Socialism and Democracy*, published in 1942,

> The subnormal recovery to 1935, the subnormal prosperity to 1937 and the slump after that are easily accounted for by the difficulties incident to the adaptation to a new fiscal policy, new labor legislation and a general change in the attitude of government to private enterprise all of which can...be distinguished from the working of the productive apparatus as such.... [S]o extensive and rapid a change of the social scene naturally affects productive performance for a time, and so much the most ardent New Dealer must *and also can* admit. I for one do not see how it would otherwise be possible to account for the fact that this country which had the best chance of recovering quickly was precisely the one to experience the most unsatisfactory recovery. ([1942] 1962, 64–65; emphasis in original)

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Table 1. Selected Acts of Congress Substantially Attenuating or Threatening Private Property Rights, 1933–1940

1933
Agricultural Adjustment Act
National Industrial Recovery Act
Emergency Banking Relief Act
Banking Act of 1933
Federal Securities Act
Tennessee Valley Authority Act
Gold Repeal Joint Resolution
Farm Credit Act
Emergency Railroad Transport Act
Emergency Farm Mortgage Act
Home Owners Loan Corporation Act

1934
Securities Exchange Act
Gold Reserve Act
Communications Act
Railway Labor Act

1935
Bituminous Coal Stabilization Act
Connally ("hot oil") Act
Revenue Act of 1935
National Labor Relations Act
Social Security Act
Public Utilities Holding Company Act
Banking Act of 1935
Emergency Relief Appropriations Act
Farm Mortgage Moratorium Act

1936
Soil Conservation & Domestic Allotment Act
Federal Anti-Price Discrimination Act
Revenue Act of 1936

1937
Bituminous Coal Act
Revenue Act of 1937
National Housing Act
Enabling (Miller-Tydings) Act

1938
Agricultural Adjustment Act
Fair Labor Standards Act
Civil Aeronautics Act
Food, Drug & Cosmetic Act

1939
Administrative Reorganization Act

1940
Investment Company Act
Revenue Act of 1940
Second Revenue Act of 1940

Schumpeter had elaborated on this interpretation three years earlier in his treatise, *Business Cycles* (1939, 1037–50), insisting that "the individual measures obviously tended to reinforce each other" (1045) in their discouraging effect on investors.

Taken together, the many menacing New Deal measures, especially those from 1935 onward, gave businesspeople and investors good reason to fear that the market economy might not survive in anything like its traditional form and that even more drastic developments, perhaps even some kind of collectivist dictatorship, could not be ruled out entirely (Roose 1954, 65–69). As Schumpeter (1939) remarked of businessmen in the late 1930s, "They *are* not only, but they *feel* threatened. They realize that they are on trial before judges who have the verdict in their pocket beforehand,

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that an increasing part of public opinion is impervious to their point of view, and that any particular indictment will, if successfully met, at once be replaced by another" (1046).

One of the chief ironies of the Roosevelt administration's policies is that "for the most part the New Deal relied on private investment to stimulate recovery yet its rhetoric precluded the private confidence to invest" (Badger 1989, 116). Early in his presidency, Roosevelt took seriously "the risk of worsening the economic depression by undermining business confidence and investment," but by 1935 he "had gained confidence in the prospects for economic recovery and was less worried about a business backlash" (Brownlee 1996, 71–72). Under political pressure from radical challengers such as Huey Long, Francis Townsend, Father Charles Coughlin, and others, FDR had begun to voice heightened hostility to investors as early as 1934 (Leuchtenburg 1963, 95–117). In 1935 Roosevelt "lost patience with corporation leaders, and younger New Dealers came to the fore who shared his reluctance to make concessions to conservative business opinion.... The men around Roosevelt were now highly sceptical of the ability of business to act in the national interest" (Badger 1989, 96). Ignoring the opposition of business groups such as the U.S. Chamber of Commerce and the National Association of Manufacturers, in 1935 FDR supported the Social Security Act, the National Labor Relations Act, the Banking Act, and the Public Utilities Holding Company Act as well as a host of other laws, including soak-the-rich taxes, opposed by most business groups.

Accepting his party's nomination for the presidency in 1936, Roosevelt railed against the "economic royalists" allegedly seeking a "new industrial dictatorship" (quoted in Leuchtenburg 1963, 183–84). Privately he opined that "businessmen as a class were stupid, that newspapers were just as bad; nothing would win more votes than to have the press and the business community aligned against him" (Leuchtenburg 1963, 183). Just before the election of 1936, in an address at Madison Square Garden, he fulminated against the magnates of "organized money...[who were] unanimous in their hate for me" and declared, "I welcome their hatred." To uproarious applause, he threatened: "I should like to have it said of my second Administration that in it these forces met their master" (quoted in Leuchtenburg 1963, 184).

In 1935, 1936, and 1937 the Roosevelt administration requested tax legislation aimed at punishing the wealthy. The so-called Wealth Tax of 1935 (part of the Revenue Act) ultimately included a graduated corporation income tax, a tax on intercorporate dividends, increases of estate and gift taxes, and increases of surtaxes on incomes greater than $50,000 that ranged up to a top rate of 75 percent. In 1936 FDR sought to tax retained corporate earnings in lieu of all other corporate income taxes. Congress

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approved a graduated surtax on corporate earnings, based on the percentage of earnings retained, and increased the tax rate on intercorporate dividends. The overall effect was to raise corporate income taxes. The 1937 tax act closed a variety of "loopholes," including the use of personal holding companies to avoid taxes.[5] These soak-the-rich efforts left little doubt that the president and his administration intended to push through Congress everything they could to extract wealth from the high-income earners responsible for making the bulk of the nation's decisions about private investment. According to economic historian Elliot Brownlee (1985, 417), "the tax reform of 1935–37, more than any other aspect of the New Deal,...stimulated business hostility to Roosevelt.... [B]usiness opponents of New Deal tax reform charged that Roosevelt's taxes, particularly the undistributed profits tax, had caused the recession [of 1937–38] by discouraging investment" (417).[6]

Although Congress reversed in 1938 and 1939 some of the tax provisions most offensive to investors, Roosevelt continued to rail against businessmen who, as he said in a 1938 speech, "will fight to the last ditch to retain such autocratic control over the industry and finances of the country as they now possess" (quoted in Brownlee 1996, 81). Although historians emphasize the president's defeats with respect to taxation in the late 1930s, contemporary businessmen must have appreciated the reality of increased taxation: in fiscal 1940, with the depression still lingering, the federal government collected 57 percent more total revenue than it had in the prosperous year 1927 (U.S. Bureau of the Census 1975, 1122, Series Y568).

Meanwhile other developments heightened the perceived threat to established private property rights. Early in 1937 FDR brought forth his plan to pack the Supreme Court. Although he failed to gain congressional support for this scheme, which many perceived as "a naked bid for dictatorship" (Anderson [1949] 1979, 430), the intimidated justices, weary of public contempt and worried that their constitutional power might be undercut, finally capitulated. Beginning in 1937 the Court abandoned its employment of the doctrine of substantive due process under which, since the 1890s, it had struck down state and federal government interferences with private contracting. Subsequently the Court, increasingly composed of FDR's appointees, upheld state minimum wage laws, the Social Security Act, the National Labor Relations Act, indeed the entire panoply of New Deal regulatory measures, under an interpretation of the Interstate Commerce Clause so

5. On the tax laws, see Witte (1985, 100–108), Brownlee (1985, 415–18), and Brownlee (1996, 74–82).

6. For evidence that the undistributed profits tax did have harmful effects on resource allocation, with costs "borne disproportionately by young, growing firms," see Calomiris and Hubbard (1995, quotation on p. 477). For the effect of the tax on business expectations, see Roose (1954, 212–16).

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sweeping that it embraced virtually all economic activity (Siegan 1980, 184–204; Ely 1992, 119–34). In the face of this "monumental change in the Court's attitude toward property rights and entrepreneurial liberty" (Ely 1992, 132), investors correctly perceived that the strongest bulwark against the government juggernaut had evaporated, exposing them to whatever legislative and executive incursions the political process might generate.

Simultaneously, wielding the new powers granted them by the National Labor Relations Act, labor unions carried out their most rapid surge of organizing. Membership rose from 3.8 million in 1935 to between 8.7 and 10.2 million (sources differ) in 1941—the latter of the 1941 figures representing 28 percent of nonagricultural employment (U.S. Bureau of the Census 1975, 177–78). As union power increased, unions became a major force in the New Deal coalition, and Democratic politicians and office-holders across the country increasingly deferred to them. In the starkest demonstration of their new power, unionists began sit-down strikes, occupying employers' facilities and refusing either to work or to leave until their demands were met. President Roosevelt declined to use force to eject the sit-down strikers; likewise, many state and local officials would not enforce the law against this willful trespassing on private property. As historian William E. Leuchtenburg (1963) observed, "Property-minded citizens were scared by the seizure of factories, incensed when strikers interfered with the mails, vexed by the intimidation of nonunionists, and alarmed by flying squadrons of workers who marched, or threatened to march, from city to city" (242).

In 1937 and 1938 Roosevelt's attempt to reorganize the executive branch of government seemed to many of his opponents still another attempt on the part of a would-be dictator "to subvert democratic institutions" by "importing European totalitarianism into the United States" (Leuchtenburg 1963, 277, 279). As described by historian Charles Schilke (1985), "the capstone of the reorganization was to be the transformation of the advisory National Resources Board into a vigorous statutory National Resources Planning Board to engage in continuous central planning and program coordination" (356). Not surprisingly, business leaders "argued that reorganization legislation would erode business confidence and impede recovery." After the House of Representatives defeated the president's reorganization bill in 1938, FDR introduced a watered-down replacement in 1939, which gained quick enactment (Brinkley 1995, 21–23). This law, "the last major New Deal measure before the Second World War," nonetheless "represented a significant shift in power from Congress to the presidency," and Roosevelt used it skillfully to create the Executive Office of the President and an Office of Emergency Management (Schilke 1985, 355), both of which proved instrumental in the president's maneuvering to bring

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the United States into World War II (U.S. Bureau of the Budget 1946, 14–16, 22).

Further disturbing business confidence, the federal government in June 1938 created the Temporary National Economic Committee (TNEC). A product of the misguided idea that "monopolies" had brought about or sustained the depression (Roose 1954, 142–43), the TNEC interrogated 552 witnesses between December 1, 1938, and March 11, 1941, and ultimately published a report of forty-three volumes. The main accomplishments of the committee were to showcase the rudimentary Keynesian ideas of economists such as Alvin Hansen and Lauchlin Currie and to heighten business suspicions that the government intended to launch an antitrust jihad (May 1985, 419–20). At the time, critics of the TNEC investigation regarded it as "an important, if ominous, event" (Brinkley 1995, 123). Raymond Moley, a member of FDR's Brains Trust who had become estranged from the New Deal, described the TNEC in 1940 as a "time bomb"—in the words of historian Alan Brinkley, "sputtering along misleadingly but certain to produce unwelcome, radical results" (Brinkley 1995, 123).

The fear seemed well justified, given the frenetic activities of Thurman Arnold, who took charge of the Antitrust Division of the Department of Justice in 1938. Despite having written a book mocking the antitrust laws, Arnold proceeded to lead an unprecedented attack on business concentration and trade practices, enormously expanding the number of prosecutions (Brinkley 1995, 111). In retrospect, one may be tempted to view this crusade as little more than an insignificant spasm of a bewildered administration seeking to shift the blame for the recession of 1937 to 1938. But contemporaries could not know, as we do, that the crusade would peter out in 1941 and 1942, when the managers of the wartime economy used their prerogatives to shield companies from antitrust actions on grounds of military necessity (Brinkley 1995, 120–21).

In contemplating the state of mind of investors between 1935 and 1940, one ought to recall just how radically the government's policies with respect to industrial structure and business practices had shifted. As late as 1935 the National Recovery Administration was still enforcing the comprehensive cartelization of all American industry. Just three years later an unprecedented hurricane of antitrust enforcement swept over business shores.

In a recent evaluation of the New Deal's effects on the recovery, economic historian Gene Smiley (1994) notes that businesses "were further discouraged from investing by the new capital market regulations generated by the Securities and Exchange Act, the government's entry into the utility industry through the TVA, the continued tax increases (particularly the undistributed corporate profits tax) and rhetoric about the need to equalize

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incomes." By these and a multitude of other policy changes, the Roosevelt administration "abruptly and dramatically altered the institutional framework within which private business decisions were made, not just once but several times" (136), with the result that regime uncertainty was heightened and recovery substantially retarded. Fearon (1987) concurs that "shifts in government policy and the bitterness of the exchanges between business and Roosevelt were not likely to encourage an expansion in investment" (210).

In these conclusions, economic historians only echo the observations of one of America's leading investors, Lammot du Pont, in 1937:

> Uncertainty rules the tax situation, the labor situation, the monetary situation, and practically every legal condition under which industry must operate. Are taxes to go higher, lower or stay where they are? We don't know. Is labor to be union or non-union?... Are we to have inflation or deflation, more government spending or less?... Are new restrictions to be placed on capital, new limits on profits?... It is impossible to even guess at the answers. (quoted in Krooss 1970, 200)

Poll Data, 1939–1941

The evidence summarized in the preceding section establishes, at least, that a variety of political and legal developments in the latter half of the 1930s gave investors ample reason to fear that their private property rights were at great risk of further attenuation and might conceivably be destroyed completely. But such evidence, by its very nature, is somewhat selective and bears only indirectly on the question at issue—whether regime uncertainty truly troubled investors. Can we somehow gain direct access to the actual expectations of more than a handful of select or fortuitous testifiers?

To the extent that public opinion surveys succeed in their objectives, we can. Modern polling, based on scientific sampling, dates from the mid-1930s. By 1939 the polling organizations had begun to ask questions that bear more or less directly on the state of business confidence and businesspeople's expectations regarding the property-rights regime. Of course, poll data present a variety of well-known difficulties (Bennett 1980, 64–93); they can never settle a question conclusively. Still, they offer some definite advantages over alternative sorts of evidence, and one would be cavalier to dismiss them peremptorily, as economists usually do. On other occasions, poll data have demonstrated remarkable explanatory power (Higgs and Kilduff 1993), and I propose to give them another hearing here.

Although most of the poll data I shall cite rest on the responses of businesspeople alone, some polls of the general public merit attention as

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well, if only to establish that the views of businesspeople were not wildly aberrant. In the spring of 1939 a nationally representative poll by the American Institute of Public Opinion (AIPO) asked: "Do you think the attitude of the Roosevelt administration toward business is delaying business recovery?" In March, 54 percent said yes, 26 percent no, and the rest had no opinion. In May, 53 percent said yes, 31 percent no, and the rest had no opinion (Cantril 1951, 64).

Also in May 1939, a nationally representative AIPO poll asked: "Do you think that ten years from now there will be more government control of business than there is now or less government control of business?" Of the respondents, 56 percent expected more government control, 22 percent less, 8 percent neither more nor less, and 14 percent didn't venture an opinion (Cantril 1951, 345).

Clearly, a majority of the general public believed the Roosevelt administration's stance vis-à-vis business was delaying recovery, and they expected government control of business to increase over the next decade, which presumably would further impede recovery.

In May 1939, *Fortune* pollsters asked a national sample of business executives: "With which of these two statements do you come closest to agreeing? (1) The policies of the administration have so affected the confidence of businessmen that recovery has been seriously held back; (2) businessmen generally have been unjustly blaming the administration for their troubles." Of the executives responding, 64.8 percent agreed with the first statement, 25.6 percent with the second, and 9.6 percent said they didn't know (Cantril 1951, 64).

When the government began to mobilize the economy for war in the second half of 1940, many business managers were reluctant to become contractors for the War and Navy Departments. In an October 1940 *Fortune* poll, the 58.8 percent of responding business executives who reported that they knew others who had "any reservations about rearmament work" were singled out for a follow-up question and presented with seven alternative reasons for such reservations. Of the seven options, the following reason received the most assent (77.3 percent chose it): "Belief that the present administration in Washington is strongly antibusiness and a consequent discouragement over the practicability of cooperation with this administration on rearmament" (Cantril 1951, 346). Evidently, many business executives so distrusted the Roosevelt administration that they would rather forgo potentially lucrative munitions contracts than deal with the administration.

In December 1940 the *Fortune* pollsters asked business executives a related question: "Do you think that present conditions are such that business as a whole is now justified in making constructive commitments for expansion?" Of the respondents, 13 percent said yes, 26 percent no, and 61

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percent said "only in war industries" (Cantril 1951, 337). Even at an advanced stage of the recovery, businesspeople who viewed civilian investment as unjustified outnumbered those regarding it as justified by 2-to-1.

In May 1941 the *Fortune* pollsters asked a national sample of business executives: "If you consider lack of mutual confidence between government and business a major or secondary factor [in the slow pace of rearmament], do you feel that the government is more to blame, business is more to blame, both equally to blame?" Of the respondents, 77.8 percent put the greater blame on government, 1.9 percent put it on business; 14.3 percent blamed government and business equally; and 6 percent gave another answer or no answer at all (Cantril 1951, 347).

In the same sample, respondents "critical of defense progress" were asked to rate eleven specified "factors...contributing to the trouble." One of the factors was "long-standing lack of mutual confidence between government and business," which was rated as a "major cause" by 41.8 percent of the respondents, "secondary" by 21.1 percent, and "unimportant" by just 7.7 percent (0.9 percent said "don't know," and 28.5 percent did not answer). The only factor selected by more of the respondents as a major cause—43.5 percent picked it—was "methods of placing government orders, red tape, delays," which itself was another form of blaming the government (Cantril 1951, 347).

In November 1941, just before the Japanese attack on Pearl Harbor propelled the United States into total war, the *Fortune* pollsters asked a sample of business executives a question that bears quite directly on the regime uncertainty at issue in this article. The question was "Which of the following comes closest to being your prediction of the kind of economic structure with which this country will emerge after the war?" The respondents were presented with four options, as follows (the percentage of respondents selecting that option as the closest to their own prediction is shown in brackets):

> (1) A system of free enterprise restored very much along the prewar lines, with modifications to take care of conditions then current. [7.2 percent]
>
> (2) An economic system in which government will take over many public services formerly under private management but still leave many opportunities for private enterprise. [52.4 percent]
>
> (3) A semi-socialized society in which there will be very little room for the profit system to operate. [36.7 percent]
>
> (4) A complete economic dictatorship along fascist or communist lines. [3.7 percent] (Cantril 1951, 175)

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These responses constitute an extraordinary testimony to the fears of business executives on the eve of the war. Almost 93 percent of them expected the postwar regime to be one that would further attenuate private property rights to a greater or lesser degree. More than 40 percent expected a regime in which government would dominate the economy—options (3) and (4). If these poll data are even approximately indicative of the true expectations of American investors, then it is astonishing that the recovery of investment had proceeded as far as it had.

The Changing of the Guard, 1940–1945

After the outbreak of war in Europe in 1939, if not before, President Roosevelt focused his time and energy on foreign and military affairs. Effective U.S. rearmament, even if only to serve as the "arsenal of democracy," required the cooperation of businesspeople, especially those in control of the nation's biggest corporations. As Henry Stimson, a pillar of the eastern Republican establishment, observed in 1940, "If you are going to try to go to war, or to prepare for war, in a capitalist country, you have got to let business make money out of the process or business won't work" (Stimson and Bundy 1947, 166).

To accommodate the business titans, FDR enlisted their leadership in a succession of mobilization committees, boards, and agencies (Higgs 1993; Hooks 1991, 165–77; Riddell 1990; Brinkley 1995, 175–200). In June 1940 Roosevelt established a firm foundation under his coalition with big business by naming Stimson as secretary of war and publisher Frank Knox, who had been the Republican candidate for vice-president in 1936, as secretary of the navy. Beneath these men, top operational authority would be exercised by Under Secretary of War Robert P. Patterson, formerly a corporate lawyer and federal judge, and Under Secretary of the Navy James V. Forrestal, formerly a Wall Street investment banker. Under such leadership, the armed services, which quickly became the greatest buyers in industrial history, were not likely to manage their procurements in a fashion hostile to business, and they did not do so (Smith 1959; Higgs 1993). By the middle of 1942 more than 10,000 business executives had taken positions in federal war agencies. Roosevelt, who created many of the mobilization agencies by executive order, "believed that businessmen would respond more readily to direction from other businessmen than to orders from what they considered a hostile federal government" (Brinkley 1995, 190). Besides, only business managers had the practical knowledge required to run the war economy—politicians, lawyers, and economists have rather severe limitations when it comes to organizing the production of battleships, bombers, and tanks.

Leading New Dealers correctly perceived that as FDR transformed

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himself from Dr. New Deal to Dr. Win the War, he was not only "ceding power to the corporate world" but "freezing out those within the government who had been struggling to expand the role of the state in managing the economy" (Brinkley 1995, 180). From 1940 on, the ranks of the most stalwart New Dealers grew thinner and thinner. As described by historian Alan Brinkley (1995), "[v]irtually none of them moved into important positions in the war bureaucracies; many of them lost their positions in the civilian agencies in which they had been serving. By the end of 1943, the liberal diaspora was nearly complete. Almost no real 'New Dealers' remained" (145). Here Brinkley exaggerates—the liberals of the extreme Left did not disappear from the government—but his description of the overall change is surely correct. To the extent that "personnel is policy," the administration became much less threatening to investors as the war years passed.

Simultaneously, support for business-threatening policies was dwindling in Congress. After the election of 1936, the Democrats held 76 seats in the Senate. After each of the next four elections, however, the number declined, and after the election of 1944 only 56 senators were Democrats. Despite some reversals, the trend was similar in the House of Representatives. The Democrats held 331 seats after the election of 1936 but only 242 after the election of 1944. The margin in the House had been even narrower after the election of 1942, when Republican victories in just six more districts would have given the GOP a majority. After 1938 the Conservative Coalition, composed of Republicans and conservative Southern Democrats, held sufficient power in Congress to stymie most efforts to extend the New Deal domestically (Porter 1985, 73). In the elections of 1946 the Republicans finally regained control of both houses of Congress.

Roosevelt's death on April 12, 1945, removed from the presidency an enormously shrewd and resourceful leader who had for the past decade expressed a hostility bordering on hatred for investors as a class. Many businesspeople, among others, had feared that FDR harbored dictatorial ambition; some believed that he ultimately did exercise arbitrary power in some if not all areas—for instance, his unconstitutional "destroyer deal" of 1940 in which, without congressional approval, he gave away fifty warships of the U.S. Navy to a foreign power. His demise must have enhanced the confidence many investors felt in the future security of their remaining private property rights.

Harry S Truman, who became president when FDR died, was a New Dealer himself, but hardly one of Roosevelt's stripe or stature. Hence he posed much less threat to investors. Truman looked askance at the type of New Dealers who had devised much of the administration's program during the heyday of the Second New Deal in the mid-1930s—the intellectual wheeler-dealers variously known as "the liberal crowd," "the long-haired

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boys," or "the Harvard crowd," whose leading lights included Tom Corcoran, Ben Cohen, William O. Douglas, Thurman Arnold, Jerome Frank, James Landis, Leon Henderson, Mordecai Ezekiel, Alvin Hansen, and, above all, Felix Frankfurter. As president, Truman "lent intermittent support to reform, but never to the centralized and professionalized administration central to the New Deal." In 1945 and 1946 he "fired or accepted resignations from a host of New Dealers, including Henry Wallace and Harold Ickes" and "filled the spots vacated by crusading New Dealers with cronies from Missouri, centrists, and businessmen" (Hooks 1991, 200–201). Just before the war, in discussing the New Deal, Schumpeter had pointed out that "the personnel and methods by which and the spirit in which a measure or set of measures is administrated, are much more important than anything contained in any enactment" (1939, 1045). Much of the New Deal legislation remained on the statute books, but under Truman's leadership, top federal officials posed a much reduced threat to investors in comparison to that perceived from 1935 through 1940. Investors might not like the Truman administration, but they could live with it. As Roose (1954) observed, in the postwar years there were still uncertainties, "but one of these uncertainties is not the type of economy in which business decisions are to be made" (256).

Poll Data, 1944–1945

Unfortunately, the poll data relevant to the question of regime uncertainty are far fewer for the late war and postwar years than they are for the years immediately preceding the war. That disparity may itself testify to the diminished salience of the issue. Pollsters are not likely to ask questions about people's expectations concerning future changes of regime when hardly anybody expects such changes to occur. Nevertheless, a few questions that bear on the issue were posed.

One, which is somewhat ambiguous, the *Fortune* pollsters posed to a sample of business executives in May 1944, after the war-command economy had been operating in its full-fledged form for more than two years. The question was "In general, does it seem to you that after the war the prospects of your company will be better, or worse, or about the same as they were before?" In reply, 51.2 percent said better, 8.5 percent worse, 36.8 percent about the same, and 3.5 percent didn't know what to say (Cantril 1951, 1121). Obviously, the respondents might have interpreted differently the phrase "prospects of your company," and even if they all understood it as referring to, say, profitability, their responses do not necessarily bear a tight relation to their regime expectations. Still, it is difficult to believe that such responses would have been made if the respondents had still held the

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gloomy regime expectations they expressed in polls taken just before the U.S. declaration of war.

Two other questions, asked shortly after Roosevelt's death, bear more directly on regime expectations. In May 1945, AIPO pollsters asked: "Do you think Truman will be more favorable or less favorable toward business than Roosevelt was?" Of the business and professional respondents, 60 percent expected Truman to be more favorable, 7 percent less favorable, 18 percent the same, and 15 percent had no opinion (Cantril 1951, 887).

In the same poll, respondents were asked: "Do you think Truman will be more favorable or less favorable toward labor unions than Roosevelt was?" Of the business and professional respondents, 5 percent expected Truman to be more favorable, 55 percent less favorable, 20 percent the same, and 20 percent had no opinion (Cantril 1951, 887–88). Not surprisingly, responses to this question form the mirror image of responses to the previous question. Taken together, these responses indicate that business and professional people felt much less threatened by Truman than they had by Roosevelt.

Evidence from these polls matches the conclusions Herman Krooss (1970) reached on the basis of his less systematic survey of the opinions expressed by business leaders: "For most business leaders, the mood during the first couple of years after V-J Day was one of cautious confidence and optimism" (219), a far different mood from that of business leaders between 1935 and 1941.

Evidence from Financial Markets

If investors truly feared for the future security of their private property rights, they should have met the Great American Challenge: "Put your money where your mouth is." Did investors manifest their fears by their actions in the financial markets?

The stock market provides some evidence. After plunging from a peak in 1929 to a trough in 1932, stock prices climbed substantially during Roosevelt's first term as president. Between 1932 and 1936 the annual average real value of the S&P Index of Common Stock Prices increased by 110 percent.[7] Still, the real value of the S&P index in 1936 remained substantially below its value in either 1928 or 1930, not to speak of its peak value in 1929. With the onset of the recession in 1937, stock prices fell. Except for a slight reversal in 1939, they continued to fall for five years. The real S&P index for 1941 was only 57 percent as high as its value for 1936. These stock-price movements are broadly consistent with the concurrent political events described earlier, although the little crest in 1936 to 1937 seems

7. The data source is the U.S. Bureau of the Census (1975, 224, Series F5, and 1004, Series X495). My price index is the GNP deflator.

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somewhat incongruent. It is noteworthy that even after the economy's recovery from the recession of 1937 to 1938 had become obvious to everyone, the stock market continued to slide, which suggests that longer-term pessimism was outweighing the brighter near-term prospect for profits.

Unfortunately, a change in stock prices, in itself, tells us nothing about whether the change reflects altered expectations with respect to profits at one point in the future or another. Obviously, if the profits expected in the near term were to increase sufficiently, investors would bid up stock prices even though they had simultaneously revised downward somewhat their expectations of later profits. Evidently such expectations motivated investors from 1935 to 1937, when, in economist Alvin Hansen's words, "Business men avoided as much as possible long-term capital commitments" (quoted by Roose 1954, 174; see also Friedman and Schwartz 1963, 495).

The investment data confirm Hansen's assessment. We can divide gross private domestic investment into three components that correspond to differing lengths of the newly created capital's expected economic life: gross private new construction (the longest lived); gross private producers durables (intermediate); and additions to business inventories (the shortest lived). During the last five years of the 1920s, on average, these components constituted the following proportions of private investment: 0.62, 0.32, and 0.06, respectively.[8] During the business recovery in progress during the first three years of the Second New Deal (1935–37), however, the proportions were 0.38, 0.44, and 0.18, respectively, showing a marked shift away from the longest-term investments. The proportions remained much the same during the second business recovery of the Second New Deal (1939–41), when they were 0.45, 0.40, and 0.15, respectively. Clearly the real investments made during the first and second Roosevelt administrations remained far more concentrated in short-term assets than the investments made during the latter half of the 1920s.

In contrast to the stock-market data, evidence from the corporate bond market permits a more discriminating assessment of changes in expectations. By examining changes in the yield of bonds of various terms to maturity, we can identify how investors changed the discount rate they applied to contracted interest payments payable at different points in the future.

In the late 1920s and early 1930s, the first-quarter nominal yields of high-grade corporate bonds of various terms to maturity differed little and fluctuated in a narrow range. After 1932, nominal yields began to fall and, most significant for present purposes, a wide spread opened between the yields of bonds with short terms to maturity and those with longer terms to

8. These and the following proportions are computed from data in Swanson and Williamson (1972, 70).

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maturity. By 1935 the yield of a bond with one year to maturity was only 1.05 percent, and such yields remained below 1 percent from 1936 through 1942 (U.S. Bureau of the Census 1975, 1004). Yields of bonds with longer terms to maturity did not fall nearly so much.

Figure 3 permits a visual assessment of the effective risk premium on bond payoffs in the more remote future. As the figure shows, virtually no such premium existed from 1926 through 1934. All observations are for the first quarter of the year.[9] Between 1934 and 1936, yields of longer-term bonds increased sharply relative to the yield of a bond with one year to maturity. In 1936, bonds with five years to maturity had a yield *three times* that of a bond with one year to maturity. The yield multiple was more than four for a bond with ten years to maturity; five for a bond with twenty years to maturity; and more than five for a bond with thirty years to maturity.

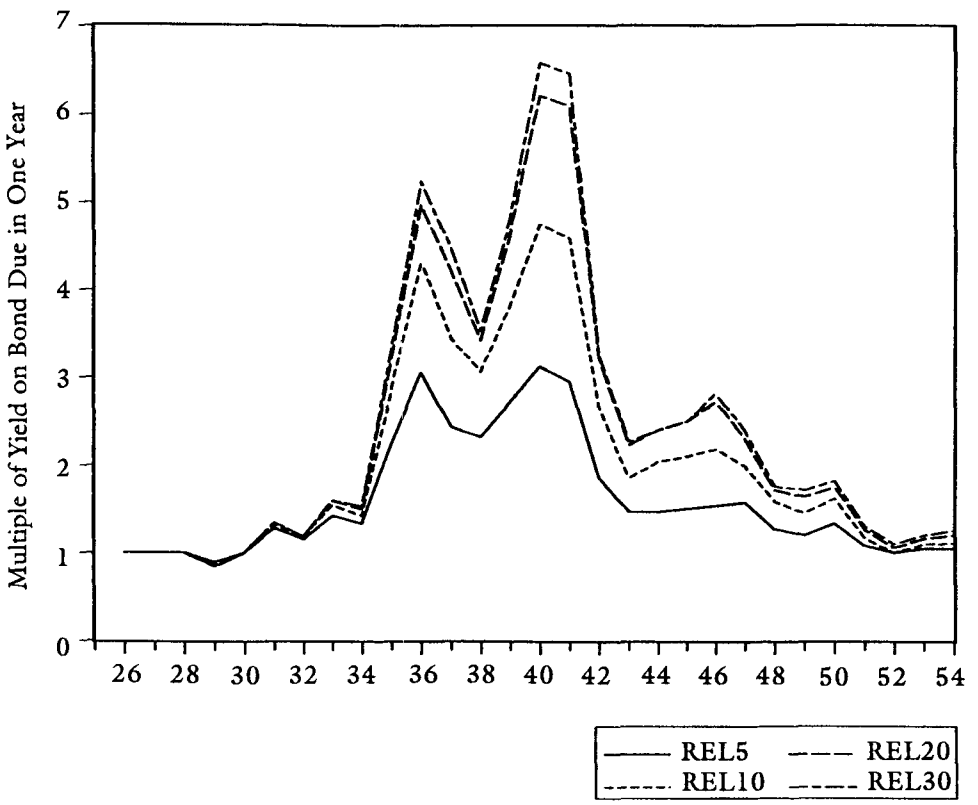

Figure 3. Relative Yield on High-Grade Corporate Bonds, by Term to Maturity, First Quarter, 1926–1954

9. The data source is the U.S. Bureau of the Census (1975, 1004, Series X487–491).

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Although the yield multiples of longer-term bonds fluctuated from year to year, they remained at extraordinarily high levels from 1936 through the first quarter of 1941. By the first quarter of 1942, however, the yield multiples had dropped precipitously. By 1943 they had returned to their 1934 levels and, despite rising slightly between 1943 and 1946, tended downward thereafter. By the early 1950s the yield multiples were about the same as they had been in the early 1930s.

The bond-yield data displayed in figure 3 tell a dramatic story. Investors' confidence in their ability to appropriate the longer-term interest payments and principal repayments promised by the country's most secure corporations plummeted between early 1934 and early 1936. Confidence remained at an extremely depressed level from 1936 through the first quarter of 1941. It then improved rapidly, despite the country's becoming a declared belligerent in the greatest war of all time. The correspondence of these financial data with the political events and opinion data described in this article is truly striking.[10]

Conclusion

It is time for economists and historians to take seriously the hypothesis that the New Deal prolonged the Great Depression by creating an extraordinarily high degree of regime uncertainty in the minds of investors.

Of course, scholars have had their reasons for not taking the idea seriously. For a long time, historians have viewed the statements of contemporary businesspeople about "lack of business confidence" as little more than routine grumbling—sure, sure, what else would one expect Republican tycoons to have said? Historians generally report such statements as if they were either attempts to sway public opinion or unreflective whining.

Since World War II, economists, with only a few exceptions, have overlooked regime uncertainty as a cause of the Great Duration for other reasons, such as the availability of standard macroeconomic models whose variables do not include the degree of regime uncertainty and, even if one

10. Some critics have insisted that the yield spreads shown in figure 3 reflect nothing more than a "flight to liquidity" that drove the prices of short-term bonds up (and therefore their yields down) relative to the prices of longer-term bonds. They point to the fact that the drop in short-term yields accounts for most of the spread that appeared after early 1934. I am not persuaded by this explanation, because (1) a flight to liquidity should have expressed itself much sooner, especially as the financial system was crumbling from 1930 through the first quarter of 1933; (2) a flight to liquidity cannot account for the large spread that opened between, say, the yield on bonds with five years to maturity and the yield on bonds with ten years to maturity (the former being hardly "liquid"); and (3) the drastic narrowing of the spreads between early 1941 and early 1942 seems very difficult to attribute to any sudden disappearance of the alleged flight to liquidity.

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wanted to incorporate it into an existing model, the absence of any conventional quantitative index of such uncertainty. Somewhat inexplicably, most economists regard evidence about expectations drawn from public opinion surveys as scientifically contemptible. Moreover, economists crave general models, equally applicable to all times and places, and so they resist explanations that emphasize the unique aspects of a specific episode such as the Great Depression.

In opposition to these professional inclinations, one can offer several goods reasons to take seriously the idea that the regime uncertainty created by the Second New Deal contributed significantly to causing the Great Duration. First, the Great Depression was not just another economic slump. In depth and duration it stands far apart from the next most severe depression in U.S. history, that of the 1890s. We are talking about history, not physics; unique events may have unique causes. Second, the hypothesis about regime uncertainty makes perfectly good economic sense. Nothing in the logic of the explanation warrants its dismissal or disparagement. Third, given the unparalleled outpouring of business-threatening laws, regulations, and court decisions, the oft-stated hostility of President Roosevelt and his lieutenants toward investors as a class, and the character of the antibusiness zealots who composed the strategists and administrators of the New Deal from 1935 to 1941, the political climate could hardly have failed to discourage some investors from making fresh long-term commitments. Fourth, there exists a great deal of direct evidence that investors did feel extraordinarily uncertain about the future of the property-rights regime between 1935 and 1941. Historians have recorded countless statements by contemporaries to that effect; and the poll data presented earlier confirm that in the years just before the war most business executives expected substantial attenuations of private property rights ranging up to "complete economic dictatorship." Fifth, investors' behavior in the bond market attests in a striking way that their confidence in the longer-term future took a beating that corresponds exactly with the Second New Deal.

Finally, this way of understanding the Great Duration meshes nicely with a proper understanding of the Great Escape after the war. The Keynesians all expected a reversion to depression when the war ended. Most businesspeople, in sharp contrast, "did not think that there was any threat of a serious depression" after the war (Krooss 1970, 217). The businesspeople forecasted far better than the Keynesian economists: the private economy blossomed as never before or since. Official data, which understate the true increase because of mismeasurement of the price level, show an increase of real nongovernment domestic product of 29.5 percent from 1945 to 1946 (U.S. Council of Economic Advisers 1995, 406). Private investment boomed and corporate share prices soared in 1945 and 1946 (Higgs 1992, 57–58).

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None of the standard explanations can account for this astonishing postwar leap, but an explanation that incorporates the improvement in the outlook for the private-property regime can account for it.

From 1935 through 1940, with Roosevelt and the ardent New Dealers who surrounded him in full cry, private investors dared not risk their funds in the amounts typical of the late 1920s. In 1945 and 1946, with Roosevelt dead, the New Deal in retreat, and most of the wartime controls being removed, investors came out in force. To be sure, the federal government had become, and would remain, a much more powerful force to be reckoned with (Higgs 1987; Hughes 1991). But the government no longer seemed to possess the terrifying potential that businesspeople had perceived before the war. For investors, the nightmare was over. For the economy, once more, prosperity was possible.

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REVIEW ESSAY

Déjà Vu

Branko Horvat's "New Approach"

IVAN PONGRACIC

In his inaugural lecture at the London School of Economics in 1933, the Austrian economist Friedrich Hayek observed that some of his colleagues suffered from "an intense urge to reconstruct the world," which caused them profound dissatisfaction. For the next sixty years, Hayek continued to urge social scientists to resist this urge, but to little avail. Driven by what Hayek later called the "scientific mentality," many persisted in formulating plans for ideal societies.

The efforts of Branko Horvat, an economist from the former Yugoslavia, are typical and instructive. Horvat's writings display a boundless trust in his ability to discover the just economic order and his desire to organize human existence scientifically in order to usher mankind into the economic paradise he sincerely believes could be just around the corner. Fifteen years ago, in *The Political Economy of Socialism*, Horvat boldly presented workers' self-management socialism, as practiced in Yugoslavia, as the only humane politico-economic system. In an interview, which I remember reading at the time in Yugoslavia, Horvat expressed his conviction that the book contained the ultimate in economic wisdom, and he anticipated his nomination for the Nobel Prize in economics.

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As his hopes for the Nobel Prize faded and his real-life model slid into financial bankruptcy, Horvat decided that the time was ripe for another book. Deploring "the present [economic] paradigm" of capitalism, he sought a "new [economic] paradigm" that would "hopefully elevate [economics'] scientific status" and, at the same time, provide a basis for reforming the unjust and wasteful capitalist system (Horvat 1995, 257). Eventually, in 1995, he brought forth *The Theory of Value, Capital and Interest: A New Approach.*

Horvat's Old Approach

To understand Horvat's present dissatisfaction with the world, some of his political and economic conclusions of 1982 must be recounted. In his previous book, he announced at the outset that he intended "to accomplish what Marx called for in his famous thesis on Feuerbach: to change the world, not just to explain it" (Horvat 1982, xiii). He aimed to create "a truly socialist society" (4). Life-long research in economics had led him to "this simple truth": capitalism is the problem of human society, and capitalism cannot be repaired. "In order to eliminate the basic shortcomings of capitalism, it is necessary to eliminate—occasionally to destroy by force—capitalism itself" (4). The "basic" shortcomings from which capitalism incurably suffers are competition, which gives rise to monopolies; lack of planning, which fails to ensure sufficient aggregate demand; reification, which produces a society in which humans are treated as things; and last but not least, waste, which lowers everybody's standard of living.

At the same time, Horvat found "etatism," state socialism as practiced in the Soviet Union and its Eastern European satellites, equally unappealing. Although superior to capitalism ("in etatist societies the broad masses live longer, receive more education, and enjoy much better medical care" [49]), it created alienation among workers, unnecessary human suffering, and much waste (though not as much as capitalism). Begrudgingly Horvat admitted that central planning, a corollary of etatism, must founder because central planners simply could not know enough to direct the economic life of a country.

The solution came to Horvat as a self-evident truth: self-management socialism, which had been practiced in Yugoslavia for almost three decades with, according to Horvat, only minor problems, was "not a utopian dream but a realizable project" (174). All that was needed to eliminate its problems and achieve its full potential was "a good theory," which Horvat promptly offered. Confident that his system could easily achieve what Hayek had believed unachievable, he decided not to leave Hayek's "challenge unanswered" (577).

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He proceeded to advance an improved version of Marxism: "Horvatism." This theory rested on "social," not state, ownership of the means of production; on autonomous firms that would "truly" compete in the market; and on workers who would freely use their ideas and knowledge to lift their standard of living. But self-management would not be limited to firms; it would pervade all parts of society. Through an ex ante plan composed by "social" planners, the political apparatus would provide the data needed by the workers to manage their firms and make correct decisions. Everything else the people would decide for themselves.

Horvat's "improvement" over the alternative systems, capitalism and etatism, thus consisted of two ideas: "social" planning is superior to central planning, and workers as managers need not suffer from either the chaos of a laissez-faire market or the authoritarianism of central planners. Horvat's main theoretical contribution to economic science consisted of his economist-kings: the social planners of the socialist avant-garde, who know everything, can predict potential problems, and, should the workers make an occasional mistake, will provide an immediate solution for every temporary problem.

Such "a truly socialist society," with free, self-managed workers and incorruptible social planners, Horvat believed, would raise social responsibility to such an unprecedented level that losses due to market failure would become practically impossible. That society would also prove that a planning system could be democratically governed. The resulting feeling of overwhelming moral superiority, along with a higher standard of living, would make everybody willing to fight for such a society.

Horvat versus Reality

By now most people know what happened to the only country that tried Horvatism. Far from bringing about a paradise, this system simply degenerated into the very chaos Hayek had predicted. Although the people of the former Yugoslavia have done plenty of fighting, they have not been fighting for Horvat's utopia.

Horvat himself spent most of the civil war years in the security of American academe, teaching economics and doing research.[1] The time spent in the United States "helped [Horvat] to eliminate certain ambiguities and simple errors" in his thinking (1995, xii), and the result is this latest book, an exercise in wishful thinking par excellence.

Encountering the title of Horvat's new book in a catalogue, I was natu-

1. In the preface of *The Theory of Value, Capital and Interest* (1995, xii) he admits that he "was kicked out from the University" of Zagreb, without specifying whether the new government of Croatia or the new administration of the university terminated his teaching career.

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rally curious. I had lived in Yugoslavia for forty years, and worked for almost fifteen years as a government auditor, watching the system crumble from the very beginning. I was intrigued by Horvat's subtitle, "A New Approach." Was the book Horvat's vehicle to confess his ideological mistakes, declaring them publicly to the world he had misled so badly? My hopes for his conversion were soon shattered. Horvat definitely remains...well, Horvat.

Horvat's New Approach

In his *Political Economy of Socialism*, Horvat attempted to be a sociologist, a political philosopher, an economist, a moral philosopher, and above all, in his own words, a scientist trying to provide an "integrated, all-inclusive view of reality." In *The Theory of Value, Capital and Interest*, he tries to be only an economist and, to a lesser degree, a moralist. Despite this narrower role, he remains the prisoner of his old paradigm. In the guise of offering a new "rigorous theory of value and of prices," Horvat still strives to demonstrate that we need a "normative theory" that will allow society to achieve "an optimal allocation of resources" with "fully synchronized development in which at every period of time the quantity and structure of supply just matches demand of the fully employed labour" (255–56).

Because "the logical foundations of the mainstream theory are shaky or unsustainable" (256), Horvat argues, we need a "new paradigm," one that "treats economy as a system, which must be designed properly in order to function efficiently" (267). In order "to maximize the economic welfare of the population," we have "to maximize the production of consumer goods," and this goal cannot be left to haphazard forces of the market (11). Fortunately, Horvat knows exactly who can design a system that meets the stated objectives.

Why does he so quickly declare the mainstream "neoclassical" economic model wrong? First, because the neoclassical paradigm puts too much faith in the market and, second, because it rests on a "misleading scarcity hypothesis" (14), a theory of "basically inconsistent" individual preferences (19), and a very unsatisfactory capital theory (21).

Horvat's bases his "new approach" on "the overriding social preference," namely, full employment. This is "the focal point" of his value theory because "[f]ull employment means full use of resources that will eventually make everybody better off" (19). Society may blossom by learning how "to determine the quantity of labour embodied in commodities in order to allocate them optimally" (27).[2] "Unlike the scarcity theory, with its unmeasurable subjective utility, the labour theory is able to use an objective

2. Horvat fails to identify this condition as Engels's dictum in *Anti-Dühring* (1878).

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measure" (32). And the objective measure is—you guessed it—the time spent producing a good![3]

Although the market, Horvat concedes, may be an institution that brings producers and consumers together, it "is not perfect even if prices are treated parametrically, and whenever it fails, 'hand regulation' becomes necessary. The social planning agency intervenes" (11). Here we see the whole purpose of Horvat's new book: to remind people of the most important innovation in his *Political Economy of Socialism*, the idea of social planning.

The same social planners who were supposed to have made a paradise of Yugoslavia, their omniscience and wisdom obviously beyond question, are now expected to play their roles in a "capitalist" society. This time they should make certain that goals the market can never achieve by itself—eliminating market imperfections and keeping the economy on the targeted track—are achieved with their altruistic help. The "new" Horvatism therefore retains the old presumption that because private ownership always results in inefficient organization of the economy's production, planning is a precondition for an efficient market.

From time to time, moral preaching reinforces the plea for planning. Still convinced that only the abolition of private property in the means of production can abolish the anarchy of the market, Horvat argues that poverty and scarcity in general would disappear in a system where people forget their selfish ambitions. His "normative theory" speaks to hearts as much as minds. He repeatedly reminds the reader that "workers are not commodities" (29); they are "not just one of the factors of production" but "the source of value" (31), and as such they must enjoy "a unique position in the economic process" (27). Full employment is "an overriding social value...because it maximizes the life satisfaction" (11). The moral value of social planning arises from the fact that "increasing employment increases welfare" (20).

Horvat's explanation of his model is an exercise in what Hayek called "constructivist rationalism." It would take too long to explicate all of his hopeless mathematical acrobatics. He assures the reader that in his model the "best techniques are applied while consumers' preferences are respected"—forgetting that he himself called those preferences basically inconsistent—so his goal can be achieved; there can be no misallocation of resources in his model. After solving his equations, Horvat always reaches conclusions that are "logically consistent," "obvious," "easy," "straightforward," "simple," and "socially desirable."

3. Later in the book Horvat likens economics to physics. Measurement in economics, he asserts, is no more complicated than measurement in physics.

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In Horvat's model the creation of wealth is more or less a technical process within which economic experts plan, forecast, and realize a series of causes and effects. Horvat views economic actors such as entrepreneurs, innovators, and capitalists more as obstacles than as wealth creators. Entrepreneurs, who do not appear in the book's subject index, may be the engineers of growth for most economies in the world, but they get no respect from Horvat; for him, they're merely people whose only goal is "to maximize profits" and reach "a comfortable level of living" (125).

Unlike the laissez-faire market, the economy based on Horvat's model would, "because of reduction of uncertainties and market failures" (257), experience few changes and practically reduce decision making to choosing the right set of equations. Therefore, even intertemporal allocation, which may puzzle the rest of us, is simple for Horvat: "In any period the available financial means are exactly equal to the full employment gross investment. In this sense financial assets match real assets and make possible unimpeded reproduction under optimum allocation of resources" (254). The trick is to remember that "labour is always exchanged for the same amount of labour either in simultaneous or intertemporal transactions" (255).

Horvat never explains how participants in the market, including the social planners, get information about the problems of particular companies or whole industries. Horvat's theory notwithstanding, the information that they must use to guide their activities is neither simple nor straightforward but, as Hayek repeatedly emphasized, vast, detailed and, most important, incomplete. In the real world, Yugoslavia went bankrupt partly because the country's self-managing workers and social planners were so inundated with "data" received from their own companies, government statistical agencies, and even international agencies that their repeated mistakes, macroeconomic and microeconomic, finally produced total chaos. In the end, everybody in Yugoslavia knew that the quality of the "data" was so poor that it was impossible to depend on any of them, especially as the government itself encouraged the managers and statistical agencies to falsify numbers, partly to appease the population and partly to justify foreign loans that became the sole source of survival.

Sheer waste and resource misuse in Yugoslavia, well known to Horvat while he was writing both of his books—in his preface, he brags about holding for years "a position in the Federal Planning Bureau in Belgrade" (ix)—should have put a speck of doubt into his mind about the feasibility of his model. That he continually refuses to admit the facts speaks volumes about Horvat's propensity for utopianism. Back in 1940, Hayek was dismayed that anyone would "suggest that...such a [market socialist] system will ever even distantly approach the efficiency of a [decentralized private-property market] system" (Hayek 1948, 187). The abysmal failure of self-

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management socialism in practice proved Hayek right. But Horvat continues to believe that his system is not only economically more efficient but morally superior.

Fundamental Unanswered Questions

The reader of Horvat's book confronts two problems. One is the gnawing feeling that consumers exist in his model for the sake of producers, so the latter can be paid just wages and reach a higher standard of living, which for Horvat means simply a stable, well-paid job. Although Horvat equates economic welfare with the production of consumer goods, the consumer in his model must take the back seat when decisions about prices, quantities, and qualities are considered. From the outset, Horvat rejects the idea that only the satisfaction of consumers can validate the success of all economic activities.

Further, Horvat continues to misunderstand the competitive nature of a market economy. He fails to grasp the economic reasons for competition as a dynamic discovery process for screening ideas, talents, ambitions, and skills; as a process of entrepreneurial adjustment to constant change, where ignorance, blunder, and uncertainty confront all actors; and most important, as a process in which alternative options—misleadingly described as "given" to entrepreneurs—are never clearly defined nor future outcomes fully foreseen. Consequently, he cannot understand that producers must concern themselves primarily with how to satisfy consumers' demand, not how to calculate a "just" wage, a "right" cost, or the "right" amount of investment. Horvat refuses to accept the subjective nature of economic progress, the reality of the market as a process in which the question, "Who is to produce what?" cannot be answered a priori but must be solved through the competitive efforts of producers constantly improving their products through innovation, lower costs, and higher productivity. Horvat seems to abhor the very thought that profit seeking could be the key coordinating mechanism in an economy.

In his own eyes Horvat has solved the calculation problem raised by Ludwig von Mises in the early 1920s. Refusing to see Hayek's "marvel of the price system," Horvat divides prices into absolute and relative prices, efficient and standard prices, thus missing their main task. As Karen Vaughn (1980) has written, echoing Hayek, market prices "are the result of transactions among individuals with unique and fragmented knowledge and are a means by which this decentralized knowledge is coalesced into a coordinated whole. To try to summarize all this information into a set of simultaneous equations would be quixotic at best" (546). The "data" in any economy, free market or socialist, are never "given" but subject to continuous discovery.

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Mises ([1949] 1966, [1922] 1981; see also Ebeling 1993) and Hayek (1935, 1944, 1988) warned people such as Horvat that in a world of constant change, their systems are doomed to chaos.

To lay claim to a new paradigm, Horvat must ask different questions and provide different answers. The questions asked and the answers given in his book are not new. If "[e]conomics is a branch of praxeology, the general theory of efficient action," and "pure economics turns out to be applied praxeology," as Horvat himself notes (1995, 3), then the question should be: Why should social planners know what is the best for acting people or the economy as a whole? Can Horvat really believe that his answer, that fully employed people are satisfied people, settles the debate?

Another question: If all action is speculative, and if it is difficult to foresee the consequences of specific actions, especially the unanticipated ones, what should social planners do when they fail (as they did) in steering the society? The most carefully laid plans may and do go awry. Should the planners admit their mistakes and ask another set of planners to take their places, or should they admit no fault and fire all the managers in the self-managed companies, or even the workers themselves, for not following the planners' recommendations?

What happens when the planners themselves disagree about the desirability of future actions (ends)? To whom can they turn for advice? Horvat never suspects that his "social" planners may go wrong, so he gives them no emergency exit. Is he aware that the likely end of his system is civil war? If, as he thinks, a laissez-faire market doesn't work—"and that is amply demonstrated by economic history" (19)—then what does history, in particular the history of Yugoslavia, tell us about *his* model?[4]

One could go on at length raising such questions. Again, I not only lived in his system; I audited it. The important point is that Horvat is so busy explaining his "pure theory" that a reader who knows little or nothing about him would never suspect that he was one of the "social planners" directly responsible for one of the most disastrous economic failures of the twentieth century.

Conclusion

In his "new" approach, Horvat only constructs a quasi-mechanistic system that conveniently hides his old aversion to free enterprise. His old dream—to design society "scientifically," that is, to bring it under the control of wise, dedicated, honest, and altruistic social planners—lives on. Looking at

4. In the chapter on methodology, Horvat warns the reader that "a single adverse effect is not a sufficient reason for the rejection of a theory" (5). How many Yugoslavias does he need to refute his theory?

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the world through Marxist lenses, Horvat still rejects entrepreneurship as a solution and continues to place his hope in a deus ex machina: social planners with good intentions, omniscience, foresight, and omnipotence in bringing about their desired results. In contrast to Hayek, Horvat truly believes that the "data" can guide social planners in choosing among different options for growth and development. Thus, his "old" approach still haunting him, his theorizing sinks deeper into confusion.

Ludwig von Mises summarized such writing best. In *Human Action*, Mises called all future Horvats "rationalistic romantics":

> Whether they call themselves Marxian or non-Marxian socialists, technocrats, or simply planners, they are all eager to show us how foolishly things are arranged in reality and how happily men could live if they were to invest the reformers with dictatorial powers. It is, they say, only the inadequacy of the capitalist mode of production that prevents mankind from enjoying all the amenities which could be produced under the contemporary state of technological knowledge. (Mises 1966, 507)

Although a society arranged according to their precepts might appear to some people as fair "from the point of view of an arbitrary standard of social justice," it would certainly be "a society of progressing poverty of all its members" (Mises 1966, 854).

Mainstream economics, which Horvat associates with "capitalism," may be unable to explain the dynamics of market activities satisfactorily, but Horvat, whose own understanding of the market economy is even worse, fails in his endeavor totally. His babbling about his system "being logically consistent" because "demand and supply are synchronized" and the "long-run equilibrium, not the short run" achieved is, to put it mildly, pathetic. He simply refuses to acknowledge the defeat of "rationalistic romanticism" and continues to defend his old paradigm by calling it new.

In the end a general question arises: Why the sudden resurgence of leftist writing? Seven years after the collapse of communism throughout Europe, the Left is producing an explosion of books; the authors of these books not only try to convince us that socialism is not dead, but also offer, in their view, a viable alternative to capitalism. With free-market reformers stumbling all across Eastern Europe, and Western European communists making a comeback by attacking "socially devastating" measures that create high unemployment, welfare cutbacks, and other economic and social dislocations, the Left is actively espousing the Fatal Conceit, the poisonous idea that economic problems can be solved by using some grand, wise, and judicious plan. As the leftists dare not to repeat their former promise of a fabulous world of plenty, they now focus their writings on "economic

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justice" and "fairness," presenting their plans, again, as a moral alternative to the amoral (and often immoral) market economy. They hope that their message will have appeal in a world populated in large part by envious and ignorant people. Let us hope the world has learned enough from the most recent disastrous episode of collectivist planning that the same mistakes will not be repeated.

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BOOK REVIEWS

✦ Economic Analysis of Institutions and Systems

By Svetozar Pejovich

Dordrecht: Kluwer Academic Publishers, 1995.
Pp. x, 231. $84.00 cloth.

In his *Knowledge and Persuasion in Economics* (New York: Cambridge University Press, 1994) Donald McCloskey wrote affectionately of the Good Old Chicago School of Economics. The book under review belongs to another cherished tradition, the Good Old Property Rights School of Economics, a first cousin of the Chicago School. Although many people complain that recent studies in economic theory often have little relevance to actual economic systems, the Good Old Property Rights School cannot be accused of irrelevance. The use of simple economic theory has seldom produced more powerful and important results than did the early property-rights analysis of the Soviet enterprise and the labor-managed firm by scholars such as Svetozar Pejovich and Eirik Furubotn. Their joint survey of the property rights literature ("Property Rights and Economic Theory: A Survey of the Recent Literature," *Journal of Economic Literature* 10 [December 1972]: 1137–62) is a modern classic. The empirical evidence on the Soviet enterprise and the Yugoslav labor-managed firm is now clear to (almost) all, and the evidence supports those early studies.

The renaissance of institutionalism in the last quarter of the twentieth century has fostered many different approaches. Scholars who draw on rational choice (purposeful behavior) and methodological individualism have struggled primarily with two major questions: (1) What institutional arrangements maximize wealth, and what are the consequences of deviations from optimal arrangements? and (2) What determines the choice of institutions, particularly in the political domain?

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Studies that deal with both these issues have combined economic analysis, usually flavored with property rights and transaction costs, and rational-choice political science (and to some extent rational-choice sociology and anthropology). Pejovich's book deals primarily with (1), the consequences of institutional arrangements, and the book's strength lies not in an exhaustive survey of recent work but in a vivid, compelling, accessible, and often outstanding analysis of the role of incentives and transaction costs in economic life. The book provides intelligent people everywhere with a clear and reader-friendly introduction to the nature of economic systems.

In an effort to establish the link between institutions and wealth, the author examines how alternative institutional arrangements affect the costs of transactions and incentive structures and how costs of transactions and incentives influence economic behavior and economic outcomes. The book has thirteen chapters and is divided into three parts. Part 1, "Institutions and Property Rights," sets the stage. Chapter 1 introduces scarcity and the consequent problem of choice as the roots of the economic problem. In chapter 2 the author attempts in thirty-five pages to review the history and development of capitalism and socialism, along with the history of economic thought. The presentation is elementary and haphazard, particularly the historical part, but the chapter contains a fair and interesting introduction to the work of Karl Marx.

Chapter 3 provides an excellent introduction to institutions, defined as the effective rules of the game. Pejovich emphasizes the individual's subjective perception of reality, and he uses this observation to explain why the same set of formal rules imposed in different countries often produces different outcomes. The chapter carefully argues that informal rules, which are rooted in experience and culture, often strongly influence behavior. Later chapters give examples of the power of informal institutions, for instance, in the former Soviet republics of Eurasia.

The new institutionalism's most serious weakness is its lack of precise understanding of the relationship between formal and informal institutions and of how informal institutions change over time. Chapter 3 concludes by citing Paul David on path dependence in economic history and the survival of perverse institutions, but the new institutionalism has not properly analyzed the policy implications of this disturbing concept. For instance, what implications does path dependence have for future economic development in Russia? Elsewhere in the book Pejovich expresses skepticism about a rapid transition to markets in the former Soviet Union, but he does not advance our knowledge of informal institutions.

Chapter 3 draws a sharp distinction between exogenous changes in institutions, which are outcome-oriented (the French or rationalistic tradition) and emerge mostly in the political domain, and endogenous or incre-

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mental changes (the British or empirical tradition), which emerge spontaneously through repeated voluntary interactions. Although all sensible people should beware what Vincent Ostrom calls "great experiments," I find it unhelpful to make a sharp distinction between beneficial endogenous change and harmful exogenous change. In part, successful economic systems are the outcome of exogenous institutional change that emerges in the political domain and typically involves changes in property rights that increase global wealth at the expense of some group. Similarly, the notion that all voluntary exchange somehow is fair is too simplistic (consider a prisoner in a concentration camp who voluntarily exchanges his wedding band for a cigarette), and it assumes an entire social structure, which is not a necessary condition for voluntary exchange. Still, I agree with the general thrust of Pejovich's argument that great experiments in social engineering usually end badly.

Chapter 4 is a good introduction to the economics of law and includes a discussion of the economic implications of the rule of law, and the distinction between common law and statutes. Pejovich sensibly concludes that the efficiency of common-law precedents is merely a tendency. The chapter also contains a useful and perceptive discussion of the law's role in the transition process in Eastern Europe. Pejovich argues that the use of statutes and the power of the state to make a rapid transition from socialism to capitalism is a risky social experiment. He perceptively discusses the influence of informal norms, beliefs, and vested interests in the region, and he makes a convincing case for greater reliance on voluntary institutional change and incrementalism.

Chapter 5, "Property Rights," defines the various types of rights. The book sometimes gives the impression that the traditional efficiency criterion supports only complete private property rights and not, for instance, communal ownership or nonprofit organizations. The literature recognizes, however, that in special circumstances arrangements such as communal ownership may minimize costs (when the cost of exclusion is relatively high and the cost of internal governance is relatively low).

Part 2 is titled "Property Rights, Exchange, and Production," and begins, in chapter 6, with an excellent introduction to the Coase theorem and the notion of transaction costs. Simple numerical examples are used to illustrate these issues. Chapter 7, "Private Property Rights, Exchange, and Production," teaches microeconomics in one short lesson, complete with property rights and transaction costs. The discussion emphasizes what most textbooks ignore, that competition in the market is above all a knowledge-creating process. The chapter ends with a reprint of an essay by James Buchanan, who discusses the perverse exchange culture that evolved in the Soviet economies and explains how it may interfere with a transition to well-functioning markets. Chapter 8 discusses economic results that follow from

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certain restrictions on private property rights, particularly price control and rationing, and includes a reprint of Henry Manne's classic essay "The Parable of the Parking Lots."

Chapter 9 does a good job of explaining production and exchange in Soviet-type economies and under Yugoslav self-management. There is also a brief discussion of not-for-profit organizations and state ownership in capitalism, which I find somewhat limited and strident. (The example of public schools that sell tickets to their football games at prices below the market-clearing level reminded me of the paradox of private rock groups that also rely on disequilibrium prices, inducing their fans to spend days and nights in sleeping bags outside the ticket office.) Chapter 10, "Institutions and Economic Development," introduces the reader to interest rates, expectations, and the economics of innovation, but only touches on variations in growth rates among nations.

Part 3, "The Firm," consists of three chapters. Chapter 11 introduces the new theory of economic organization, relying primarily on ideas associated with Armen Alchian, especially the economics of contracts and teamwork, and discusses issues such as holdups and moral hazard. The following two chapters, 12 and 13, discuss four different types of firms: corporations and codetermining firms under capitalism, and government-owned and labor-managed firms in socialist societies. The general discussion of the organization of production and the corporation is vivid and lucid, but it is relatively narrow and somewhat dated. As one would expect, the account of the codetermining firm is excellent, as is the author's analysis of the labor-managed firm and of the Soviet enterprise.

Finally, we come to the pros and cons. My first impression was that the book was of mixed quality, including both brilliant and rather sloppy sections, and the underlying research at times appeared to be thin. Occasionally, I did not appreciate the book's spirit of advocacy, even as a strategy for winning converts. The pros, however, overwhelm the cons. *Economic Analysis of Institutions and Systems* is a powerful essay that examines the consequences of incentives and property rights for economic activity. Pejovich has made a valuable contribution to redefining the field of economic systems by an intelligent discussion of the damaging effects on human society of perverse property rights and disincentives. Although the volume sometimes pastes over problems and weaknesses in systems based on private ownership, its emphasis on the relative merits of a decentralized market system based on private property fully justifies its existence.

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✦ The Limits of Public Choice: A Sociological Critique of the Economic Theory of Politics

By Lars Udehn

New York: Routledge, 1996. Pp. xi, 447. $89.95 cloth, $25 paper.

The time is right for a book exploring the limits of public choice. The field has grown enormously in personnel, domain, and influence. From humble origins as a small scholarly discussion group in Virginia, the Public Choice Society has expanded to include hundreds of researchers in North America, and counterpart societies have emerged in Europe and Japan. Those familiar with the range of topics researched under the inclusive rubric of public choice know full well that economic imperialism has been hard at work. And none can doubt that the entire field gained professional stature with the awarding of the Nobel Prize in Economic Science to James M. Buchanan a decade ago. Having fully ripened, the field now calls out for a thoughtful pause to consider the limits of its domain. In the movie *Magnum Force,* "Dirty Harry" Callahan warns: "A man's got to know his limitations." So, too, do researchers in public choice.

Although the time is right for a book exploring the limits of public choice, practitioners may find that Lars Udehn's is not the right book for them. As its subtitle suggests, it is written from a decidedly sociological viewpoint, the author being a sociologist affiliated with the University of Uppsala. Critics of public choice looking for an erudite discussion of the limitations of economic methodological orthodoxy argued from a sociological perspective that scorns economic imperialism will no doubt find this book much to their liking. Public choice disciples seeking honestly to consider the limits of economics generally and public choice specifically will probably find this work thought provoking and somewhat unsettling. Ultimately, as a practicing economist, I was left longing for a book that explores the limits of public choice from the inside—that is, one fashioned by a fellow economist. More on this point later.

Udehn begins by calling attention to traditional political science as a field devoted primarily to description and much in need of theoretical guidance: "a discipline with a topic, but no particular approach" (p. 1). Clearly, for Udehn, economics plays a crucial role in illuminating some political phenomena, but so do the sister disciplines of psychology and sociology:

> My quarrel is with those who make exaggerated claims concerning the universality and explanatory power of economic theory. The argument of this book is not that public choice is bad, but that there are definite limits to the economic approach to politics; that there are certain phenomena it is not well equipped to deal with, and some phenomena it cannot handle at all. (p. 9)

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Udehn writes for an audience of social scientists, taking care to make the book accessible to those in all branches of social science. He does not intend to undertake an ideological critique; instead, he wishes to focus on empirical and theoretical issues. The field known as public choice is considered broadly so as to include more than simply the Virginia School originators of the term. The inclusiveness, for example, allows Udehn at one fascinating juncture to dish out special derision to the late George Stigler of the Chicago School of political economy for an alleged gross misreading or misleading representation of Adam Smith on self-interest. Throughout the volume Udehn pulls no punches: his is no dispassionate tome.

Udehn has given a logical structure to his book. Preliminary observations concerning scope, approach, and organization appear in the Introduction. Chapter 1 provides an overview of the economic and sociological perspectives on politics, reviewing noteworthy contributions to the respective literatures. Udehn invokes Buchanan's characterization of the methodology of public choice, which consists of three elements, namely, self-interest motivation, politics as exchange, and methodological individualism, discussed in turn in chapters 2 to 4. In chapter 5 Udehn considers the economic perspective on collective action, in chapter 6 the sociological. Chapter 7 offers conclusions.

Udehn takes issue with the assumption of self-interest in politics, which lies at the core of orthodox public choice methodology. His thesis holds that political man acts with regard to both group interests and the public interest in ways that deny solely selfish motivation. Udehn does note the more recent tendency to treat the self-interest axiom broadly enough to include even altruism, but he dismisses the broader interpretation as vacuous. His charge, then, is primarily lodged against an orthodox public choice in which, without apology, self-interest is equated with selfishness.

Udehn alerts readers to empirical shortcomings stemming from the selfishness assumption. He considers a range of evidence concerning the behavior of politicians, bureaucrats, and voters. His empirical evaluation and conclusion strike me as contentious when he writes: "Thirty years' testing of the public choice assumption that people vote their pocketbook has resulted in a great mass of disconfirming evidence, and little, if anything, in the way of confirmation" (pp. 85–86). Yet, earlier, he remarks about politicians: "there can be little doubt that incumbent politicians occasionally do try to 'buy' votes...in a variety of ways [such as]...pork barrel legislation, popular tax cuts, direct transfers and, above all, promises, immediately before elections" (p. 69). It is hard for me to understand why politicians so behave if people do not vote their pocketbooks.

An economist writing on the methodology of public choice might have argued that one requires only a sufficient tendency toward rational, self-

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interested behavior among some political actors at the margin in order for one to ascribe economic causes to politics. Udehn misses this point or minimizes its relevance when he writes: "The point I wish to make is that some use of economic policy to increase the probability of re-election does not prove that politicians are *all* selfish. It only proves that they are human, perhaps all too human" (p. 69). An orthodox economist writing on methodology could acknowledge difficulties resulting from the axiom of self-interest, but would maintain the axiom nevertheless (either unflinchingly or with a wink) because to do otherwise would be tantamount to abandoning the economic approach. Preserving orthodoxy, however, is not Udehn's mission. He has come instead to highlight the need for a sociology of politics alongside public choice.

Udehn is correct that the task of explaining manifestations of altruism poses a special challenge to economists. Perhaps economists can develop better ways of dealing with other-regarding behavior, such as the fresh approach taken in Robert H. Frank's "What Price the High Moral Ground?" (*Southern Economic Journal* 63 [July 1996]: 1–17). Alternatively, and to Udehn's liking, economists could more humbly admit that some phenomena are better explained by other social sciences. As one who has never felt that economics provides an especially good explanation of, say, why audiences only sometimes give standing ovations, I have no problem with this alternative. Only the most doctrinaire economist would disagree.

Udehn sees politics as exchange, but not just that. He faults economists for carrying the baggage of stable preferences too far, to the exclusion of understanding politics as persuasion: if preferences are given, then the political forum is devoid of economic content and much of politics lies outside the realm of economics. Similarly, Udehn sees power and authority as integral to political life, yet outside the bounds of economics: authority presupposes organization, and organizational behavior has long resided in the domain of sociology; moreover, legitimate authority induces a norm of obedience to rules, hardly the kind of behavior that lends itself to rational-choice analysis.

By now I hope I have conveyed fairly the flavor of Udehn's work. The author has made a serious attempt to learn the literature of public choice, and his book deserves to be treated seriously. He has articulated well the sociologist's complaint against imperialist economics. Although that sociological perspective allows Udehn to see clearly some limitations of public choice that would be perhaps less than obvious to economists, it nonetheless clouds his view in the very area fundamental to appreciating fully public choice and its imperialist designs: being a sociologist, Udehn does not think like an economist about markets.

At various points in his book Udehn conveys the sense that economics

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can successfully explain market behavior because in the market lives selfish economic man. Social norms are such that selfishness is accepted in the market (p. 193). Public choice fails or is severely limited, however, because political man can be so much more than merely selfish; he can be socialized to care about his group interest and the public interest, too (p. 60). Udehn believes that market relations are at times exploitative and coercive, as with the power of capital over labor (p. 156) or men over women (pp. 156–57). He is concerned that the public choice movement has been about more market and less democracy (p. 188), especially as the movement has accompanied the rise of the New Right in politics, a deplorable development in Udehn's opinion (p. 8).

In contrast to Udehn's view of market incentives as base and incapable of developing the whole person (a questionable point in my opinion, but one not pursued here), consider instead the viewpoint typical of economists. Most economists (of the public choice stripe) revel in the self-regulating and social-harmonizing attributes of markets, attributes that transcend the character of the participants. It is quite natural for such economists to advocate political institutions that will work in some sense independent of the personal character (or lack thereof) of political actors. If you were to tell such an economist a story based on Udehn's view that someone is exploiting another in the market, you would have merely invited that economist to think more deeply about the relationship and rewrite the story. The economist's tale of the marketplace is in the end one of seduction, not coercion.

If economists in the public choice movement wish to encourage a larger role for markets, I submit they do so because they have studied extensively human behavior in the context of markets and are enamored of the consequences in a way few sociologists are. Fine art is necessarily less appreciated by the untrained eye. Economists, by virtue of their understanding of human action in markets, do indeed have privileged insights into nonmarket behavior. These insights have limitations, however, so Udehn has done those social scientists interested in politics a favor by carefully and systematically reviewing the limits of public choice—as he sees them. Still, when a sociologist mentions, for instance, a norm of rule following in an organization characterized by legitimate authority, this economist cannot help wondering who captures the appropriable quasi-rents in that implicit market. For better or worse, both economists and sociologists tend to be discipline bound.

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✦ A Struggle for Power: The American Revolution

By Theodore Draper

New York: Times Books, 1996.
Pp. xiv, 544. $35.00 cloth, $17.00 paper.

Theodore Draper has a well-deserved reputation for producing excellent histories. He received the Herbert Feis Award for Nonacademically Affiliated Historians in 1990 from the American Historical Association, an indication not only of the quality of his work but also of the depth of his dedication. (You'd better keep your day job to support that type of interest.) His portrayal of the cause of the American Revolution will maintain his fine reputation.

There is no shortage of accounts of the coming of the American Revolution, so one wonders what value might be added by yet one more. Draper develops a new slant on one of the major interpretations of the cause of the Revolution, often called the neowhig thesis. That line of argument sees the war as provoked by the British attempt to gain control over the Americans, who had carved out de facto independence while left to their own devices during the colonial era. Draper views the contest as one between the Americans struggling to maintain control over their affairs and the British seeking to reassert control for their own imperial purposes.

All historical accounts are premised on some conceptual framework, whether their authors acknowledge it or not. Sadly, many historians who deny that they are "captive to narrow constructs" but rather "choose the method that is best in each case" are prisoners of implicit models that not only vary but all too often contradict each other. In contrast, Draper is very forthright about his thesis and consistent in his approach. He lays out his framework of power early on, relates each topic to it, and closes on the same note. This tactic works to his advantage by making his argument easier to trace and ultimately more convincing.

Power in this case has to do with who controls the American government—more specifically, particular functions of that government. For almost a century and a half, the British allowed the Americans to provide such local governmental services as law enforcement and public works. How they provided them hardly affected the rest of the empire and would have been awkward to manage from London in any case. However, American contacts with foreign parties, in either trade or military affairs, were considered imperial prerogatives. But the British government devoted almost none of its own resources to these functions, as Draper writes, "ruling the colonies on the cheap."

By the middle of the eighteenth century, the American colonies had

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already been honing their own independence for more than a century. The imperial government had imposed taxes and regulations on the Americans' foreign commerce, but the Americans evaded or ignored many of the most onerous burdens. The British never collected taxes for the military protection they provided the Americans; rather, they depended on an informal understanding that the Americans should contribute to military operations during wars by contributing supplies, troops, and naval bases. The net effect was that no formal arrangement was ever created to exert the power—à la Draper—that the British believed was their prerogative.

This informal arrangement unraveled in the middle of the eighteenth century. The neowhig thesis, which Draper supports in this particular, contends that the expulsion of the French from North America in 1763 freed the Americans from dependence on British protection. Draper adds to the scholarship on this point by showing that the British were aware of this effect; their awareness appeared in their domestic debate over whether Canada or Guadaloupe should be the concession taken from the defeated French. But like other neowhig adherents, Draper needs to probe this issue further. The Americans never really felt threatened by the French in Canada, who numbered only about 5 percent as many as the American population. The French navy could be a threat—and bases in Canada might contribute to that—but even during the French and Indian War, when the French threat was active, the Americans did not seem concerned. Of greater importance was that the American economy was growing rapidly, quickly putting itself beyond the reach of any foreign power. In other words, the war that removed the French presence coincided with a trend that encouraged the Americans to act more independently in any case. Draper deals with this important trend in another context in chapter 6, "This Million Doubling," which documents the recognition by both the Americans and the British that the continued rapid growth of America was bound to upset the existing balance of power, allowing the Americans to act more independently.

Draper does not dwell on Britain's relatively sudden, intense change of heart in wanting to gain power over the Americans. He mentions, but does not focus on to as great a degree, Britain's concern that America's growth was making it into a dangerously independent factor in world affairs, which other historians, such as Piers Mackesy (*The War for America, 1775–1783* Cambridge: Harvard University Press, 1964), have emphasized. Draper quite convincingly shows how the Americans' desire for independence came late in the struggle, only after they reluctantly concluded that regaining the old status quo within the empire was impossible. He also demonstrates the Americans' search for principles and arguments to buttress their justification for making the adjustments being thrust on them.

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Draper's book is finely crafted and makes for pleasant reading. It presents a convincing mix of primary and secondary materials. The reactions of those directly involved come through persuasively. For the most part the narrative moves right along, frequently rewarding a reader with interesting insights.

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✦ Democracy and International Trade: Britain, France, and the United States, 1860–1990

By Daniel Verdier

Princeton: Princeton University Press, 1994.
Pp. xx, 387. $62.50 cloth, $18.95 paper.

How should we best discuss interdisciplinary questions? And what role do differing theoretical perspectives have in an analysis that borrows from multiple disciplines? What role does narrative play independent of any theoretical considerations?

These questions sprang to my mind as I read Daniel Verdier's historical survey of the political economy of international trade in the three leading Western powers over the last century and a half. Verdier proposes to provide us with a general theory of the impact of political competition on trade policy in democratic regimes while guiding us through a historical overview that illustrates his main points. In particular, he wishes to criticize what he views as the partial explanations provided by economic analysis while more generally incorporating political actors into the model.

However, his book is oddly structured for such an endeavor, reading like two separate monographs only weakly linked together. The first part is a "Political Theory of International Trade," which serves as a criticism of the existing literature and a schematic overview of Verdier's own theories. The second part, 80 percent of the book, is a historical overview of trade policy that does not come to grips with any of the theoretical issues laid out in the previous section. By Verdier's own admission, his aim was

> not to submit the propositions to a systematic test, nor to deliver the definitive versions of British, French, and American modern trade history, but rather to show how easily the facts of these three national experiences line up with the categories and causal statements of part one and to contribute a new interpretation of these three cases."

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Therein lies the heart of my difficulty with this work. To my mind, Verdier's theoretical criticisms are interesting but not decisive, and his mix of taxonomy and ad hoc hypothesizing is unpersuasive. The history is interesting for its own sake and is perhaps the best reason to read this book. But the cases he presents in no way serve as clear-cut illustrations of his complicated arguments; nor do they help us unravel the contradictions of mixing political analysis with rational choice theory or abstract models of political economy.

Let us treat the two parts and their corresponding merits separately. On the theory of trade policy: surely no one in either economics or political science believes that rent seeking, the median voter theorem, or state autonomy is a complete and all-encompassing explanation for political economic policies. The goal is to develop abstract models that proceed from the core presumption of rational choice theory, that understanding flows from properly representing different group interests, and then to analyze their interaction using the tools of supply and demand while taking into account the differing constraints of the political sphere and the administrative bureaucracy. The difficulty lies in deciding which features are central and which details can be left out without damaging the analysis irremediably. It is undoubtedly true that in their zeal for clarity and simplicity, many theorists are apt to throw the political baby out with the institutional bath water, preferring to play mathematical games that engage the mind without providing any insights into policy. But the fact remains that the public choice literature and the more theoretical work on voting models have constituted two of the most important contributions of economic and political theorists to the creation of a new political economy. Indeed, Verdier makes full use of the panoply of rational choice models to develop a variety of subtheories regarding interest-group behavior in the context of political competition in a democracy. He shows an impressive breadth of knowledge of the theoretical literature in economics and politics and understands the basics of mathematical modeling.

What is different is Verdier's more complicated but not particularly clearer taxonomy of interest groups and their relation to the electorate. And it is not clear that all the parts fit together. His theory of electoral delegation does not seem well laid out, and its implications are not fully developed in the abstract presentation of the first few chapters. Hence it is all the more troubling that he shies away from directly confronting his theory with the historical cases so that we might better understand why he views his framework as a superior vehicle for understanding the evolution of trade policy in democracies. Some of this confusion may arise from differences in style between economists like me and political scientists like Verdier. But ultimately the broad sweep of the possibilities and promises

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Verdier presents in the opening chapter is never quite matched in subsequent analysis.

If I am baffled by the weaknesses of the book's theoretical sections, I found much of the interest in the more straightforward historical cases that make up the bulk of the book. Verdier gives us half a dozen historical case studies of trade policymaking in Britain, France, and the United States, focusing on the effects of interest-group politics while annotating well-known historical episodes. It seems as if every major trade issue from Cobden-Chevalier to the Monnet Plan and GATT is sketched in a few deft strokes and then treated intelligently and cogently.

Given the enormous sweep of Verdier's overview, I hope I will be forgiven if I focus on a few episodes of particular interest to me to highlight our areas of disagreement. Overall, I am concerned about the author's inability to distinguish between the economic importance of a tariff and its political relevance. For example, Verdier makes much of the struggle in nineteenth-century France over the protection of iron manufacturers. Although this issue may have loomed large in the politics of French protection, it played a trivial role in overall French trade when weighted by its economic importance. Political struggles over an economically minor issue might seem to have greater significance than a routine and uncontroversial tariff modification for a class of goods with a greater weight in overall trade. Any analysis that attempts to locate the influence of politics on economics must come to grips with assessing the actual rather than the perceived effect of various policies. For such an assessment, the political record is a poor guide. To take a modern example, not everyone may be aware that a fairly elevated, even prohibitive, tariff on laptop screens or microchips would be likely to have a much smaller effect on American trade than a minor adjustment in various agricultural or textile duties.

Closer to my own heart, Verdier has cited my work on nineteenth-century British and French tariffs but doesn't seem to have drawn any useful lessons from this research. He ignores the evidence of extremely high British average tariffs in the nineteenth century and much lower French tariffs, calling the former "revenue" tariffs and the latter protective. But as I have argued ("The Myth of Free Trade Britain and Fortress France: Tariffs and Trade in the Nineteenth Century," *Journal of Economic History* 51 [March 1991]: 23–46) and subsequent research has revealed, the distinction between revenue tariffs and protective tariffs is not easy to make. Most important of all, the British tariffs did have important protective effects that were large relative to the much smaller effects of the French tariffs. The evidence clearly indicates that Britain, when one appropriately weights her duties, had higher tariffs than France for nearly three-quarters of the nineteenth century, and further research has only served to underline the severity

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of British restrictions on trade, particularly from France. Although the problem of developing an appropriate comparative index is still a pressing one, the issue cannot be finessed by looking at either the intent or the nature of a tariff independent of its weighted effects on overall trade. This inattention to the economic importance of a policy causes me to look with some suspicion on much of the discussion of tariff policy in the twentieth century, which is unaccompanied by systematic quantitative analysis.

Most of the chapters in the second part make much of the various lobbies and voting factions and their effects on policy choices. For period after period, we read plausible stories of how this configuration of interests or that voting group accounted for some switch in policy regime. There is good correspondence between the policies being profiled and the observable "objective" interests. Although Verdier does an admirable job with the narration, he does not specify which predictions flow smoothly from a particular analytical focus and which are just sensible observations that anyone would make regardless of theoretical perspective. Indeed, given the rather generalized treatment of lobbies and interest groups, I am surprised that one would need to confine the analysis to democratic regimes, as the author seems to. One could well argue that even the authoritarian regime of Napoleon III was quite responsive to interest-group pressures and that these groups stood well within the analytical compass of the theories employed by Verdier.

In a book so far-reaching, it is also a bit jarring to see so much attention placed on the voting blocs and so little on the institutional structures of the state and the economy. Only the institutions that seems directly tied to electoral or state-level issues are considered, but given the interest-group story being told, more attention to regulation and the domestic economy would have been welcome.

Despite my various criticisms, anyone with serious interests in trade policy should have this book. Its wealth of political and historical detail is quite astonishing, and the cases provide much food for thought. Probably no one will be able to absorb all the anecdotes and examples in less than several readings. Researchers seeking to ferret out patterns for analysis or study will need years to absorb all the material Verdier has included and will find much of interest in his comments.

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✦ The Chief Justiceship of Melville W. Fuller, 1888–1910

By James W. Ely Jr.

Columbia: University of South Carolina Press, 1995.
Pp. xii, 248. $49.95 cloth.

What better topic for the first volume of a history of the Supreme Court than the Fuller Court? It was, for all intents and purposes, the first modern Supreme Court, the first to regularly decide the sort of cases common today, ranging from appeals of regulatory decisions to claims for civil rights. Moreover, many of its decisions continue to shape constitutional law—for example, *Roe v. Wade* can be understood only in light of the Fuller Court's decision in *Lochner v. New York* (1905). According to James Ely, the Fuller Court is also deeply misunderstood. It has traditionally been characterized as knee-jerk antilabor, antiregulation and pro-business, willing to invent doctrines such as dual federalism and substantive due process to justify its prejudices. Ely, in line with recent revisionist scholarship, argues that this characterization is wrong: Fuller and his colleagues were neither as consistently pro-business nor as innovative as the received wisdom suggests. Instead of usurpers, they were honest craftsmen, doing their best to apply a new constitution to a new world.

To support this characterization of the Fuller Court, Ely devotes the bulk of his book, over half of the text, to a careful examination of its decisions. Arranged by topic, his chapters show the Court pursuing the goals traditionally imputed to it, from protecting entrepreneurial liberty to defending the national market. However, Ely's tour also reveals that many of the famous cases are atypical. Looking more widely at the Court's record makes evident that these protections were not absolute; the Court upheld far more regulatory legislation than it struck down. And when it did strike down legislation, it drew on established traditions in American thought, traditions that stressed public purpose, private rights, and antagonism to special interests and wealth transfers and opposed the unlimited power of majorities. The result was a complex and nuanced interpretation firmly grounded in respectable constitutional doctrines.

In correcting the traditional accounts, Ely is careful not to replace demonology with hagiography. He does not idolize the Fuller Court; nor does he apologize for its shortcomings. Indeed, he goes out of his way to point out that the Court's vision of liberty was not ours. Most of its judges had very narrow ideas about which rights were constitutionally protected. For example, they were unwilling to overturn laws enforcing social norms about the role of blacks and women.

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In laying out the Fuller Court's decisions, Ely rescues it from the traditional charges of bias and brutality. Yet in the end, the Fuller Court that he reveals seems almost incoherent. How, we wonder, could the same men who wrote the paeans to liberty in *Lochner* join in *Plessy v. Ferguson* (1896), which validated the doctrine of "separate but equal"? What constitutional principles led them to allow a state to ban oleomargarine, but not yellow-dog contracts? To make sense of these twists and turns, Ely argues that we must consider carefully the circumstances—economic, political, cultural, and legal—in which the Court acted. Only then can we make sense of what it did.

The most obvious factor shaping the Fuller Court was its unique position in history. During this period, the Court was called on to make many decisions that were literally unprecedented. Some were unprecedented because they involved new forms of government regulation. During this period, governments at all levels undertook to regulate a wider range of private activities, often using new methods, such as commissions. Those hurt by these regulations looked to courts for recourse, arguing that the regulations violated their constitutional rights. Other decisions were unprecedented because they involved new clauses of the Constitution, such as the Fourteenth Amendment. Adopted during Reconstruction, this amendment radically altered the constitutional landscape by giving people federal protection against state governments. In doing so, it reversed the hands-off attitude toward states that had served to protect slavery since the founding.

Ely argues that, notwithstanding the claims of its critics, the Fuller Court's reaction to these novelties was not to read its own prejudices into the Constitution. Indeed, he argues that even when it had no direct precedent, the Court still turned to history for guidance. In looking for antecedents to the Fuller Court's rulings, Ely casts his net wide. The result is an enriched understanding of the Court's place in history. Perhaps nothing illustrates this better than his analysis of *Lochner,* the archetypal Fuller Court decision. In this case, the majority struck down a New York law regulating the work week for bakers on the grounds that it violated their liberty to contract. Ely argues that, contrary to Justice Holmes, the majority did not simply read Herbert Spencer into the Constitution. Instead, it interpreted due process as prohibiting laws that privileged one class or group, in this case bakers, over others. Ely points out that concern over special-interest legislation had been a staple of political discourse since the Jacksonian era. Moreover, these concerns had been tied to the notion of due process by state courts throughout the pre–Civil War period. Seen from this perspective, the *Lochner* majority, rather than radically rejecting the past, adapted the past to fit new conditions.

As Ely argues, the Court's resolution of these novel challenges had implications for more settled areas of the law. For example, when the Court

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reviewed state regulations under the Fourteenth Amendment, it could not help but affect the balance of power between state and national governments. As the Court was committed to federalism, it had to work hard to restrain state governments without reducing them to empty shells. Ely argues that the attempt to strike a balance between the contradictory principles of federalism and limited government led to decisions that appear inconsistent to us.

The final factor Ely points to as constraining the Fuller Court is its political circumstances. Politics influences the Court in many ways. Although Ely does not stress this point, justices in the late nineteenth century were much less timid about participating directly in politics. Many of them had extrajudicial political aspirations; Justice Field actively sought the Democratic nomination for President in 1880. And he, like many of the justices, maintained his ties to politicians, offering them advice and consulting with them. It is not clear how, if at all, these career concerns influenced judicial decisions.

But these sorts of career concerns are not really what Ely means when he talks about political constraints on the Court. He argues that it also faces structural constraints arising from its place as one of the three branches of the national government. As is to be expected in a system of checks and balances, the Constitution gives the other branches methods of controlling the courts, ranging from amendment to appointment. It is popular to dismiss the efficacy of these methods and to treat the Court as unconstrained by the other branches. Ely argues otherwise, claiming that, for whatever reason, the Court pays attention to the other branches. As evidence that the Court felt constrained by politics, Ely points out that it picked its battles carefully. Thus, it was much more likely to overturn state legislatures, which had little recourse, than Congress, which had more. And when the Court took on Congress and the president, it usually did so when the other branches disagreed and hence were less likely to unite in response. Thus, the Court was much more hostile to the income tax, which had only narrow support, than to the Sherman Antitrust Act, which enjoyed wider support. As Ely notes, it took the proponents of the income tax almost twenty years to pass a constitutional amendment overturning the Court's decision in *Pollock v. Farmers' Loan & Trust* (1895).

Ely argues that such realpolitik also explains the Court's deference to Southern racists in its civil rights cases. Given political realities, it is hard to imagine that a judicial decision overturning Jim Crow would have stood up. By the end of the century, southern racism was an established fact in national politics: in return for acquiescing in the dismantling of Reconstruction, Northerners got support for other policies. Given the robustness of this deal, the Court had no prospect of successful interference.

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Reduced to a bumper sticker, Ely's explanation of the inconsistencies in the Fuller Court's record is simple: "the constraints did it!" That is, in deciding cases, the Fuller Court did not, because it could not, ignore its social and political environment. That environment provided the Court with a vision of a limited government, one intended to preserve economic liberty and private property. It also provided the justices with a new set of issues, many having to do with how to handle a growing economy. And finally, the environment presented them with a political reality that limited their freedom. Ely argues that when we view the Court through the lens of its circumstances, taking these constraints into account, the decisions that strike us as inconsistent or incoherent become consistent and coherent. This account of the Court is likely to disappoint those, like Richard Epstein and Bernard Siegan, who pin their hopes for limited government on the Supreme Court. Ely's account suggests that they need to rethink their theories of constitutional politics. And when they do, histories such as this will provide the raw material for testing their conjectures.

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✦ The Postwar Japanese System: Cultural Economy and Economic Transformation

By William K. Tabb

New York: Oxford University Press, 1995. Pp. 414. $19.95 paper.

The recognized limitations of neoclassical economics and the desirability of integrating social and cultural factors into economic analysis have spurred much recent research. Such research holds particular promise for the study of economic history and development, where institutional changes may have brought about many of the events at issue.

William Tabb's book on the Japanese economic system in the postwar era represents just such research, bringing cultural variables into the explanation of various economic institutions. Thus, he views unique features of the Japanese economy such as the cooperative relations of employers and employees, the industrial policies, and the complex financial-industrial organization known as *keiretsu* as manifestations of a Japanese cultural economy "in which choices are constrained, behavior is rooted, and institutions are grounded" (p. 295).

Tabb would have us look to this cultural economy in explaining the past, present, and probable future of the Japanese economy. Taking this approach, he analyzes the historical roots and development of the Japanese economy and its unique institutions (chaps. 3 and 4); Japanese manufactur-

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ing systems and labor relations, with special reference to the automobile industry (chaps. 5 and 6); the politics of urban and regional policy making and the problems those policies create (chap. 7); Japanese financial institutions and the collapse of the "bubble economy" (chap. 8); and issues related to industrial policy and trade conflicts between Japan and the United States (chap. 9). Tabb explores such topics as how Japanese institutions might change in a new global economy, what roles Japan might play in the economic development of other Asian countries, and the lessons of Japanese experience for the United States.

Consideration of the cultural dimension helps Tabb describe the price Japanese society has paid for rapid economic development. For example, the Japanese manufacturing system receives praise for its efficiency, but it creates great stress for the labor force by the intensity of work and the heavy responsibilities placed on workers (pp. 151–52). Although I cannot agree that the Japanese system of labor relations rests on "the exploitation of labor" (p. 157), no one can deny that the Japanese social and cultural setting has much to do with the establishment and development of Japanese manufacturing and its labor relations, and we need to consider the negative social consequences of the system as well as its economic benefits. Tabb's descriptions and his reports of interviews allow the reader to learn about the negative features of the Japanese system and to judge what parts of it might be adopted by another country, such as the United States, with a different cultural and social background and environment.

Although Tabb's descriptions of the Japanese system have value, a serious methodological problem tends to undermine his efforts. He states that "my task here is not the reconstruction of economic theory" (p. 289), but he needs some framework within which to link cultural with economic variables. He rejects the transactions-cost analysis of institutions because he thinks it "miss[es] the dynamic nature of strategic choice" (p. 296), and he takes a dim view of neoclassical economics in general because it "tells us little about the real world differences between the traditional American firms' relations as compared with the Japanese" (p. 297). One might surmise that his analysis rests on an underlying Marxian framework, but he provides no explicit specification.

How Japanese economic institutions may change is currently a very controversial topic. It is hard to deny that unique economic institutions and policies such as the *keiretsu,* industrial policy, and cooperative employer-employee relations contributed to Japanese economic development during the era of catching up with the West. At present, however, the Japanese economy seems to be undergoing a great transformation: lifetime employment and the seniority system are no longer general rules; *keiretsu* are dissolving themselves, especially in the automobile and electronics industries, as pro-

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duction facilities are shifted abroad; and the main banking system is changing because of deregulation and the internationalization of financial markets. Some scholars argue that traditional institutions and policies based on governmental guidance will not work now that Japan has reached the frontiers of world technology, and they claim the economy needs drastic changes to prosper in the twenty-first century. (For an example of such an argument, see Iwao Nakatani, *Nihon Keizai no Rekishiteki Tenkan* [A Historical Transition of Japanese Economy]. Tokyo: Toyo Keizai Shinpo-sha, 1996.)

Tabb does point to some recent changes: the *keiretsu* structure is being challenged by younger managers and the increasing bargaining power of more efficient suppliers; industrial policy is more difficult to implement because of foreign pressure, more open financial markets, and the independent resources of strong Japanese transnational firms; and increasing numbers of *shinjinrui,* the new breed of young people, reject their parents' traditional values. But Tabb fails to predict how Japanese institutions will be altered by these changes. A book on current Japanese economic institutions should have clearer implications for the future course of institutional change and its impact on the economy.

Tabb presents a more concrete picture of Japan's economic role in Asia. He states that the "new booming Asian economies depend on Japanese capital, technology, and strategic guidance" (p. 263). Japan maps its Asian strategy by carefully examining the economic conditions and political stability of each country and so can "plan markets" abroad the same way that it uses industrial policy to manage domestic conditions. This strategy increases "the dependence of each nation on a monopsonistic buyer—Japan" (p. 264), and therefore "Asia comes under Japanese guidance" (p. 265).

Tabb overestimates the strength of the Japanese system and its ability to manage events in Asia. Although his depiction had some veracity earlier, the pattern of Asian economic growth has changed dramatically in recent years, and it has become anachronistic to talk about the region's economic growth in terms of dependency (See Toshio Watanabe, "Jiritsu Hatten Hajimeta Higashi Azia" [East Asia That Has Started Self-Sustained Development], *Nihon Keizai Shinbun,* 17 June 1996.) Japanese companies' investment in the Newly Industrializing Economies (NIEs = South Korea, Taiwan, Hong Kong, and Singapore) peaked in 1989; in countries of the Association of South-East Asian Nations (ASEAN = Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, and Vietnam) it peaked in 1990. NIEs have replaced Japan and the United States as the major suppliers of investment money to ASEAN countries: from 1991 to 1994, NIEs invested $27.2 billion in ASEAN countries, while Japan and the United States together invested $24.1 billion. Moreover, exports from East Asian countries (NIEs, ASEAN, and China) to Japan and the United States fell from

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47.8 percent of their total exports in 1985 to 36.6 percent in 1994. Clearly, flows of goods and money are changing within East Asia; no longer can one accurately describe East Asia's economic growth as dependent on the Japanese (or the American) economy. Some Japanese are even beginning to fear that Japan may be left out of future economic growth in East Asia! Tabb goes astray in predicting the roles of the Japanese economy in Asia, mainly by failing to grasp the multifaceted dynamism of East Asian economic growth. The emergence of free-trade-oriented economies in East Asia has diminished the advantage of Japanese economic institutions, and Japan is becoming just one of Asia's big economies.

From Tabb's book, one learns that although integrating social and cultural factors into the analysis of economic development is desirable, proposing it is one thing and doing it another. As more East Asian countries achieve rapid economic growth, we surely need to know more about the social and cultural factors that underlie their development. Making real headway remains a major challenge to students of the political economy of economic development.

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Etceteras . . .

Fifty Years of the Mont Pèlerin Society

JUST AFTER WORLD WAR II, classical liberalism reached its lowest ebb. Europe lay in ruins, one half locked under Soviet domination, the other half drowning in dirigisme. In Britain, a Labor government wielded power, nationalizing basic industries and creating a full-fledged welfare state. In France and Italy, communists and their political allies threatened to take power. In Scandinavia and the Low Countries, welfare states blossomed while free markets withered. Spain and Portugal endured fascist dictatorships. Germany languished under Allied occupation, with controls choking the revival of its economy and the population struggling to avoid starvation. In the United States, most people had lost their old faith in the free market and gained a new faith in the ability of government to solve economic problems and guarantee social security. Everywhere in the West both masses and elites, especially the intellectuals, plunged waywardly down what Friedrich A. Hayek had just dubbed "the road to serfdom."

Peering into the abyss ahead, Hayek determined to form a society committed to persuading the intellectuals, and hence the masses and their political leaders, to change course. This society would bring together for mutual enlightenment and encouragement the leading figures of classical liberalism. Included would be Englishmen such as Lionel Robbins, John Jewkes, and Michael Polanyi; Austrian émigrés such as Ludwig von Mises, Fritz Machlup, Karl Popper, and of course Hayek himself; Americans such as Henry Hazlitt, Frank Knight, Milton Friedman, Aaron Director, and George Stigler; Germans such as Wilhelm Röpke and Walter Eucken; Frenchmen such as Maurice Allais and Bertrand de Jouvenel; and other western Europeans.

In April 1947 the men named above and others—thirty-nine persons in all, from seventeen countries—met in Switzerland and formed the Mont Pèlerin Society. They adopted a Statement of Aims that briefly described their view of the prevailing crisis:

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> Over large stretches of the earth's surface the essential conditions of human dignity and freedom have already disappeared. In others they are under constant menace from the development of current tendencies of policy. The position of the individual and the voluntary group are progressively undermined by extensions of arbitrary power.

The statement avowed that "what is essentially an ideological movement must be met by intellectual argument and the reassertion of valid ideas" and identified six broad areas in which further study and debate would be worthwhile in combating the prevailing intellectual tendencies. The statement concluded:

> The group does not aspire to conduct propaganda. It seeks to establish no meticulous and hampering orthodoxy. It aligns itself with no particular party. Its object is solely, by facilitating the exchange of views among minds inspired by certain ideals and broad conceptions held in common, to contribute to the preservation and improvement of the free society.

Fifty years later it appears that, despite individual disagreements and rivalries, personality clashes, and administrative difficulties, the society has prospered and remained steadfast in adherence to its initial statement of aims. It has served essentially as an international club at whose meetings leading classical liberals can exchange and debate ideas in the comfort of a solidary environment.

Since its founding meeting in 1947, the society has held thirty general meetings and more than twenty regional meetings, most in Europe but some in the United States and others as far away as Hong Kong, Tokyo, Caracas, Sidney, and Rio de Janeiro. From the 37 original participants, membership has grown to more than 500, predominantly Europeans and Americans but now including many Asians and Latin Americans as well. To join, new members must be elected by the society, and membership has become a badge of honor among classical liberals.

From 1948 to 1960, Hayek served as president. Subsequent presidents served shorter terms; by the late 1960s a two-year term had become the rule. Presidents have included such luminaries as Röpke, Jewkes, Friedman, Stigler, James Buchanan, Gary Becker, Max Hartwell, and Pascal Salin. Most members have been academics, overwhelmingly economists, including seven recipients of the Nobel Prize in Economic Science, but journalists, businesspeople, lawyers, government officials, and others also have belonged. Prominent men of affairs who have belonged include Luigi Einaudi, president of Italy, Ludwig Erhard, chancellor of West Germany, and Vaclav Klaus, prime minister of the Czech Republic.

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Did the Mont Pèlerin Society succeed in turning the tide of statism in the West? Certainly the intellectual standing of classical liberal ideas has risen, especially during the past twenty years. Socialism, Hayek's bête noire, has been more or less discredited, at least in its more blatant forms, except in the sheltered enclaves of academia. Western policymakers now talk openly about privatization and deregulation and occasionally take corresponding action. In classical liberalism's darkest hour, the Mont Pèlerin Society sought, in Max Hartwell's apt military metaphor, to "save the flag" and "renew the attack." Its influence was probably most significant during the dark age between its founding and the mid-1970s, when classical liberal ideas came close to being suffocated by the dominance of collectivism among Western intellectuals. Hartwell, a longtime member of the society, its president from 1992 to 1994, and more recently its historian, concludes that "the Society was important in changing the political agenda, first, by sustaining liberal ideas when they were ignored and unpopular, and second, by circulating them widely and increasing their influence." Whether the members of the society would have been equally effective in the absence of the society is impossible to say, but no doubt the society helped them to allay despair and to retain their fighting spirit when the odds seemed heavily against their cause.

The information given here, as well as many details of the society's founding, activities, and membership, may be found in R. M. Hartwell's *History of the Mont Pelerin Society* (Indianapolis: Liberty Fund, 1995), a judicious and nicely written 250-page account. (Passages quoted earlier appear on pp. 41–42, 203, and 215–16.) Readers who do not care to know all about the nuts and bolts of the society's administration (part 2) will find that parts 1 and 3 contain excellent analyses of the economic and political developments that prompted the society's formation and of the interplay between the society and the course of events during the past half century. Sixteen pages of photographs and an excellent index complement the volume.

ROBERT HIGGS

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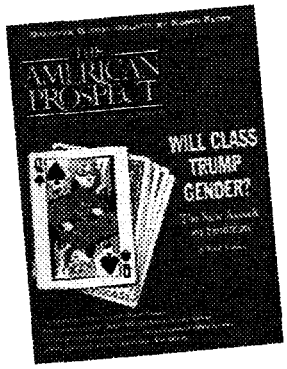

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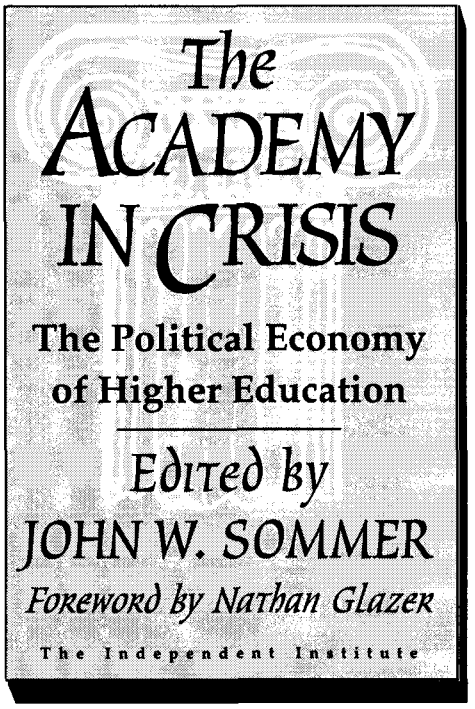

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